# REVIEW OF CBI SUGAR PROVISIONS

ORIGINAL

COMPLETED

# HEARING

BEFORE THE

## SUBCOMMITTEE ON COTTON, RICE, AND SUGAR

OF THE

## COMMITTEE ON AGRICULTURE
## HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

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# REVIEW OF CBI SUGAR PROVISIONS

WEDNESDAY, MARCH 31, 1982.

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COTTON, RICE, AND SUGAR,
COMMITTEE ON AGRICULTURE,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 1:30 p.m., in room 1301, Longworth House Office Building, Hon. David Bowen (chairman of the subcommittee) presiding.

Present: Representatives Coelho, Stenholm, Hatcher, Albosta, Thomas, Stangeland, Napier, Morrison, Gunderson, and Chappie.

Also present: Representatives de la Garza (chairman of the full committee) and Akaka.

Staff present: Robert T. Lowerre, associate counsel; Peggy L. Pecore, clerk; Brenda Hatton, Bernard Brenner, and Linda J. Miller.

## OPENING REMARKS OF HON. DAVID R. BOWEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. BOWEN. The committee will be in order.

Many of us in the Congress who recognize the need for some kind of special economic stimulus in the Caribbean Basin area and who recognize the importance of stability in that area—and I certainly hope that applies to all of us in Congress—are very much interested in the goals that are set forth in the Caribbean Basin Economic Recovery Act.

Of course, several committees of the Congress are now holding hearings to examine different aspects of this legislation to determine whether or not the program will achieve its goals and what the implications might be for our domestic economy if we do pass this legislation.

The Subcommittee on Cotton, Rice, and Sugar did, of course, play a very key role last year in developing the sugar program which was in our farm bill.

We feel that it is a valid responsibility of this subcommittee to review the sugar provisions involving duty-free entry of the Caribbean Basin Initiative, an effort to determine what the impact will be of these proposals on the integrity of the sugar loan program and upon the sugar industry of this country.

It was of course, as I think everyone knows, not the intent of this committee—and we believe we established that for the record last year—that USDA would take over any sugar through the loan program.

It is that in particular which is one of our primary considerations in holding this hearing today.

We are very pleased to have with us witnesses from USDA, from USTR, and from the State Department. I will call on these gentlemen individually.

When they and their associates have finished their testimony, we will proceed with questions from the subcommittee. Since they are now all at the table, I think we will let you stay right there.

We will recognize you as you are listed on the printed agenda.

First, we are very pleased to have Richard Smith who is the Administrator of the Foreign Agricultural Service of USDA. We are happy to say he is a frequent visitor to these parts.

We are very pleased to have your testimony today.

You may proceed.

**STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY THOMAS HAMMER, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS**

Mr. SMITH. Thank you, Mr. Chairman.

It is a pleasure to be here again.

I thought I would concentrate on the agricultural aspects of the Caribbean Basin Initiative. This is a process we went through in analyzing the impacts and the safeguards that we have in the legislation.

I think Mr. Calingaert and Mr. Nelson will speak a little bit more about the general objectives of the plan.

I would ask that my formal statement be inserted in the record at this time.

Mr. BOWEN. Without objection, so ordered.

[The prepared statement of Mr. Smith appears at the conclusion of his oral remarks.]

Mr. SMITH. As you indicated in your statement, our major interest in reviewing the Caribbean Basin plan was to recognize that we do have the sugar legislation and that there is a commitment to maintain the sugar price. In all of the interagency reviews of the proposal that went forward to the Congress, this was uppermost in our minds.

I think we fashioned a proposal that, in our view, will adequately protect the domestic program.

In addition to sugar, there was a considerable amount of concern about perishable commodities. This is a very sensitive area.

I think we also were able to come up with some proposals in the legislation that will provide some safeguards.

In the case of sugar, the legislation provides, in the case of the Caribbean area, to continue GSP treatment for most of the countries in the area. This is treatment they currently receive.

The principal problem was the Dominican Republic, Panama, and Guatamala who have exceeded the competitive need requirement under the GSP provisions.

We finally came up with a proposal to set an absolute quota for those three countries, at 1.15 million tons. Our feeling is that by

putting an absolute quota we would avoid price averaging which would be a threat to the program.

In addition, by setting the quota for these three countries, plus the others getting GSP, we will have to adjust the proclamation that currently is in effect which adjusts the fee depending upon the world price.

Obviously, due to amount of the more duty-free sugar that comes into the United States, we are going to have to take some action in order to offset the ability of importers to price average and thus increase their share of the market which, in essence, would result in additional sugar being taken on by the Commodity Credit Corporation.

Basically, the formula and variables that we are going to have to look at when we work this formula is how much duty-free sugar we estimate is going to come into the United States in relation to the total imports and what percentage that is. Then a determination is going to have to be made on what part of the duty reduction is being shared by the exporting country and the importer.

We have developed a formula, by using these variables with which you can come up with an adjusted fee that would not make it profitable to get the price averaging, which is what we would be mainly concerned about.

In addition, there is a final statement in the legislation which indicates that if the Secretary of Agriculture believes the Commodity Credit Corporation will take on any sugar, he would recommend to the President that the duty reductions granted under the Caribbean Basin Initiative would be automatically rescinded.

In other words, if a determination is made by the Secretary that any sugar will be taken on by the Commodity Credit Corporation, this would be the case.

We believe that by capping the total amount of sugar by absolute quotas on the three major countries, plus continue with the GSP treatment for the remainder of them, plus these fee adjustments, plus the final provision that if we think we are going to take on any sugar, we would suspend the duty-free treatment, that this provides adequate protection in order to assure that we will not undermine the sugar program.

In the case of perishable commodities, we have included a special provision which is an emergency action that the Secretary could take and recommend to the President, in case there is a surge in imports of a particular product that is affecting the domestic market.

Under the provision if a particular group felt that the imports were damaging their industry, they can make a section 201 petition, requesting relief. This goes through a regular procedure through the ITC where they do an investigation and would come up with the final determination.

That usually is a lengthy process.

The CBI legislation provides that if the group feels there is an emergency situation, they can petition the Secretary of Agriculture to immediately recommend to the President that emergency action be taken to suspend the duty reductions.

The Secretary would have 14 days in which he would have to decide and recommend to the President whether action would be

taken. The President would have 7 days in which he would have to take some action.

This would considerably speed up the process in which any aggrieved party could get some action by the administration.

One of the keys will be setting up criteria as to what constitutes an emergency situation. We are in the process of developing these criteria as to what exactly we feel would constitute an emergency situation.

We believe the more precisely you can define that, the less problem there will be in trying to identify this in the future.

I think the Department is going to have to be on top of what imports are and what the situation is on a very current basis in order to have the basic information available in order to make the determination in a timely manner.

We are committed to doing that.

I might add that when you look at the total numbers in the Caribbean our forecast is that at best they probably would be able to double their exports of perishable commodities say, over the next 5 years into the United States. They currently are exporting about 100,000 tons and even if they doubled it in 5 years that would still be only 10 percent of the total quantities of perishable commodities that are imported from Mexico right now.

We still recognize there could be a particular item that could be a major problem. I think this emergency procedure that we have in the legislation will enable us to take care of that situation.

Finally, I will comment on meat. I know there has been some concern about how meat would be affected by the legislation. The Meat Import Act still applies. There would be no change in that.

If the Secretary estimated that meat imports were going to exceed the trigger levels contained in the act, we would have to impose quotas or negotiate voluntary restraints with supplying countries.

That does not change in any way.

I think with that summary I will stop and will be glad to answer any questions.

Thank you.

Mr. BOWEN. Thank you.

Let me say also we are pleased to have Mr. Thomas Hammer, Deputy Under Secretary for International Affairs and Commodity Programs.

We will have some questions for both you gentlemen after the testimony of the other two witnesses.

[The prepared statement of Mr. Smith follows:]

Statement by Richard A. Smith, Administrator
Foreign Agricultural Service
United States Department of Agriculture
before the
House Agriculture Committee on Cotton, Rice, and Sugar
March 31, 1982

Mr. Chairman, I am pleased to meet with you to discuss the Caribbean Basin Initiative as it relates to agriculture.

The Department of Agriculture has an interest, and a responsibility, in both the economic development and the trade aspects of the initiative.

The Department's contribution to development in poorer countries, going back more than 30 years, is well known, and we are prepared to increase our technical and scientific help to improve agricultural systems in the region.

Agricultural trade between the United States and the Caribbean Basin countries is substantial. Last year it was valued at $3.5 billion, and we would expect agricultural improvements and economic growth to stimulate trade in both directions.

The agricultural picture in the Basin is not particularly encouraging at this time. The rate of growth in agricultural production has declined sharply — from a growth trend of 4 to 6 percent in the 1970's to only 1.5 percent last year.

Export earnings from agriculture, which account for about half of total Basin export income, are suffering a decline. World prices are soft for the region's major agricultural exports — bananas, coffee, sugar, beef, cotton and cocoa.

The agricultural sector's contribution to the gross domestic product also has been steadily declining, ranging today from more than 40 percent in Haiti to less than 2 percent in Trinidad/Tobago. At the same time, about 57 percent of the region's population of 37 million remains rural, and overall population is growing by nearly 2 percent a year.

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It seems readily apparent that modernization of the agricultural sector in these countries is crucial to meeting the food needs of the region's growing population and to provide a solid base for economic growth.

The Department has been active in development and food assistance in the Basin countries, and we are looking at ways to increase the level of these activities.

Our fiscal 1983 budget request for P.L. 480 food assistance tied to self-help agricultural development projects in Basin countries has been increased to $89 million. This is a 43 percent jump from the 1981 level.

P.L. 480 projects underway or planned under the agreements with recipient countries include irrigation, erosion control, improved production and credit facilities, crop diversification, and improved import handling facilities.

Another project, proposed for P.L. 480 support in Jamaica, is designed to encourage participation by U.S. agribusiness in helping to solve agricultural problems by providing technical and management expertise and capital through joint ventures or other ways.

This type of activity could be expanded with good effect. We believe that U.S. private investments should help to develop mutual trade between the United States and Caribbean Basin countries that would be beneficial to all.

USDA expertise can be useful in other areas, such as improving animal and plant health and quality, expanding agricultural research and training opportunities, and coordinating bilateral agricultural programs with multilateral organizations.

Certainly a Caribbean Basin free of animal disease would be mutually beneficial to the region and to the United States. As a step toward the disease-free goal, USDA and the Agency for International Development recently completed a successful swine fever eradication program in the Dominican Republic. The program now is being moved to Haiti, and we envision more of this type of cooperation under the CBI.

These and other proposals offer opportunities for USDA and the U.S. agricultural community to play a stepped up role in Caribbean Basin development, and we are prepared to do our part.

As for agricultural trade with the Caribbean Basin countries, U.S. exports to the region last calendar year totaled $1.2 billion, consisting largely of wheat, corn, soybeans and soybean products, and inedible tallow.

U.S. imports from these countries totaled $1.9 billion. About four-fifths of this was in bananas and coffee, which are noncompetitive products, and sugar, molasses, and beef, which are produced in this country.

When the Carribean Basin Initiative was being developed, it was recognized that the free trade provisions would pose problems peculiar to certain agricultural products, and the implementing legislation takes account of this.

The first of these is sugar, which presents a unique situation. In order to prevent massive government acquisitions of sugar under the price support program mandated by the Agriculture and Food Act of 1981, the Department must protect the domestic price of sugar. Therefore, sugar imports from the Caribbean Basin receive special treatment under the Initiative.

The mechanisms used to maintain the integrity of the domestic sugar program are an import fee imposed under Section 22 of the Agricultural Adjustment Act, currently 2.1418 cents per pound, raw basis, and an import duty, currently set at the maximum of 2.8125 cents per pound.

The Section 22 fee is applied to all sugar imports from whatever origin. However, among the Basin countries the duty is applied only to the three largest suppliers -- the Dominican Republic, Guatemala, and Panama. Sugar from the other Caribbean sources enters duty free under the Generalized System of Preferences (GSP).

Our sugar proposal for the Caribbean Basin Initiative would (1) leave the import regime for the lesser suppliers intact, (2) eliminate the import duty for the three largest suppliers, and (3) set an absolute limit of 1.15 million tons of sugar per year from these three. This would be 110 percent of the average of the best two of their last three years of exports to the United States.

A safeguard mechanism would permit the President to suspend the duty-free treatment on all or part of the absolute quota if such an action became necessary to protect the price support program.

In addition, the Section 22 fee may be adjusted to account for the increase in duty-free sugar imports.

We believe this is a workable solution to a difficult problem. It permits us to meet our responsibility to the domestic program while affording duty-free treatment in keeping with the spirit of the CBI, and it does so in a manner which should not cause concern among non-Basin sugar suppliers.

There is nothing in the sugar proposal to encourage greater sugar production in the Basin. In fact, the effect of other elements of the CBI will be to encourage diversification away from sugar.

The competitive situation of the smaller Basin countries is unchanged, and the export limits on the Big 3 suppliers, fixed for the life of the program, are consistent with their export performance over the past six years.

The CBI proposal also recognizes that perishable horticultural products, because of their short marketing seasons and shelf life require special treatment.

A significant number of these items already enter duty free under the GSP program. Most tariffs on the dutiable products, which vary by season, average around 1.5 cents to 2.5 cents per pound. All of those products which are presently dutiable under the CBI would enter duty free.

Several sensitive non-GSP horticultural items -- tomatoes, cucumbers, squash, and eggplant -- would be included in the Initiative; however the countries covered by Caribbean Basin Initiative are not major suppliers of these products.

The CBI proposal takes accounts of the fact that speedy action would be needed to provide relief to domestic producers from a harmful surge of imports of perishables.

The proposal authorizes an injured domestic producer of perishable products to file a petition for relief under Section 201 of the Trade Act and, simultaneously, with the Secretary of Agriculture. If the Secretary finds that the industry's situation merits import relief, he will recommend within 14 days that the President reimpose the Most Favored Nation duty for the product in question on an emergency basis. If the President concurs, the President would reimpose the duty within 7 days. The duty would remains in effect pending the resolution of the 201 petition.

Those who petition for relief under this proposed new safeguards law still would have to show the same degree of injury as current petitioners under Section 201 of the Trade Act. However, pending resolution of the complaint, the Government would be able to respond quickly in cases where a business would be damaged badly while awaiting results of an ITC investigation.

In summary, the Department of Agriculture recognizes that a sound agriculture is basic to sound economic growth, and we are prepared to help the countries of the Caribbean Basin to improve their agricultural systems. The CBI proposal will permit this assistance while providing safeguards against adverse effects.

That concludes my statement Mr. Chairman. I will try to answer any questions the Committee might have.

Mr. BOWEN. I would like now to call on Donald Nelson who is the Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

I know that Mr. Nelson has been very busy looking after the interests of American agriculture in our trade negotiations with other countries.

We are very happy to have you with us today.

We are pleased to have your testimony. You may proceed.

**STATEMENT OF DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL AFFAIRS AND COMMODITY POLICY, ACCOMPANIED BY IRVING WILLIAMSON, ATTORNEY ADVISOR, GENERAL COUNSEL'S OFFICE, OFFICE OF THE U.S. TRADE REPRESENTATIVE**

Mr. NELSON. Thank you, Mr. Chairman.

I appreciate those kind words

I am Donald Nelson, Assistant U.S. Trade Representative, and I appear before you today on behalf of Ambassador William E. Brock, U.S. Trade Representative.

I am pleased to be appearing today at this hearing to give testimony on the President's economic program for the Caribbean, known as the Caribbean Basin Initiative.

We believe that the legislation now before you is an innovative program for economic cooperation and economic partnership within this hemisphere. It is a multidimensional program.

Its focus on economic development is complemented by its obvious attention to the larger questions of political and social institution-building which must accompany economic revitalization.

The program has been many months in development, but the result of our careful and thorough approach to the problems of economic recovery is a program which is truly comprehensive.

It addresses both long-term and short-term problems. It is, above all, a flexible program which reflects our desire to respond to the particular development obstacles of the individual beneficiary countries.

Before discussing the sugar import provisions of the program prepared by the administration, I would like to make a few general remarks about the initiative.

The Caribbean Basin Initiative is part of a broader regional program that was developed with the cooperation and encouragement of the so-called Nassau Four, which now includes a fifth member, Colombia.

This donor group is currently establishing a new standard for regional cooperation and assistance, at a time of serious world economic turmoil.

Over time, our joint efforts for the small and fragile economies of the Caribbean Basin have the potential to build an economic, political and social environment in which the ideals of democracy, self-determination, and economic self-reliance can flourish.

We began work on the Caribbean Basin Initiative at a time when we were already aware of the critical need of this region for some form of catalyst to promote economic recovery.

The need for such a catalyst, however, is far more acute now than it was then. During the past year, the economies of this region have again been among the hardest hit by international economic developments.

With little defense against the vagaries of the international economy, these nations continue to be impoverished by the oil price increases of recent years and by the precipitous fall in other commodity prices over the last 12 months.

The President's message which introduces the legislation states that our program for the Caribbean was designed to let the people of this region earn their own way.

During our consultations with the Caribbean beneficiaries, we spoke with national leaders who had confidence in the future and intended to bring prosperity back to the region through their own hard work.

Their optimism was tempered only by the substantial impediments to regional economic revival which dim the prospects for a totally self-generated recovery.

Our discussions led us to look for ways in which the United States might assist these countries in reducing what we all agreed were the most important current obstacles to self-renewal.

We agreed that our response to immediate economic impediments should, so far as possible, be consistent with the goal of long-term development.

Finally, we agreed that actions taken by the donors should be complemented and reinforced by self-help measures implemented by the beneficiaries.

The initiative is a response to the specific impediments to recovery raised by the beneficiaries and it combines carefully crafted trade-related, aid-related, and investment-related measures.

I will focus my remarks on the trade aspects of the initiative and, in particular, on the provisions affecting sugar imports.

The nations of the Basin are all vitally dependent on trade. Without liberal access to regional and hemispheric markets, there is little incentive to new or expanded production.

It is certainly true that a high percentage of Caribbean products now enter our market free of duty under the generalized system of preferences, or GSP.

On the other hand, many potential Caribbean exports have never been included in this scheme.

Product diversification, therefore, is significantly hampered. Other products have been eliminated from eligibility through the GSP petition process or by the competitive need limitations.

Although we have been able to maintain eligibility for most Caribbean products, Caribbean Basin countries have not yet been able to use the scheme with the same effectiveness as many other more competitive countries.

Uncertainty surrounding renewal of the GSP system further weakens its effectiveness as a trade-promoting program.

To overcome both the real and perceived disadvantages of the GSP, the President is requesting the authority to grant duty-free access for all Caribbean Basin imports, with the exception of textiles and apparel currently covered by textile agreements for a period of 12 years.

We think that such an immediate extension of duty-free access on products that have not been previously included in the GSP scheme is warranted.

The current productive capacities of the beneficiaries do not pose a threat of injury to any affected U.S. industry but should a threat of injury, or injury itself, actually develop, we have the ability to safeguard U.S. industry from Caribbean products using the remedies available under Section 201 to 203 of the Trade Act of 1974.

Sugar, like all other products except textiles and apparel, is included in the proposed Free Trade Area, or FTA.

However, for as long as there is a domestic sugar support program, duty-free imports of sugar from Basin countries would be subject to limits to ensure that the domestic price support program operates as intended.

The importance of sugar to the Caribbean Basin countries is well-known. Sugar exports from these countries were valued at over $1 billion in 1981.

Moreover, sugar exporters in the Basin are largely dependent on our market, as about 60 percent of their total sugar exports go to the United States.

During the period in which our support program is in effect in the United States, a special regime will apply. Dick Smith mentioned some of the specific points. Perhaps it might be helpful for the record to mention specifically how this is envisioned at the moment.

The main features of the proposed special regime for sugar are:

The three Basin countries—the Dominican Republic, Guatemala, and Panama—which do not now get duty-free entry for their sugar under the generalized system of preferences would each receive an absolute, duty-free quota based on their historical shipments to the United States.

The calculation will cover the average of the highest 2 years of the period 1979–81.

This gives quotas for the three countries as follows: Dominican Republic, 780,000 metric tons; Guatemala, 210,000 metric tons; and Panama, 160,000 metric tons.

Shipments from other Basin exporters of sugar would continue to be duty-free without new limits but under GSP rules as at present.

The GSP provides that if imports of a product from any GSP country exceed a certain value, the normal duty is reimposed the following year. The present value limitation is $50.9 million, and is revised annually to reflect nominal growth in the United States GNP.

These countries' GSP rights and limits would become part of the proposed FTA and would thus be preserved for the entire 12-year life of the FTA. These countries would also have the option of requesting absolute, duty-free quotas—based on historical performance—instead of GSP treatment.

This arrangement will, in our view, provide substantial benefits to Caribbean Basin countries. At the same time, however, the program has been designed to insure that the price support program mandated by the Agriculture and Food Act of 1981 is fully protected.

First of all, it sets limits on the amount of sugar that can benefit from duty-free treatment. Second, a safeguard mechanism would permit the President to suspend the duty-free treatment on all or part of the absolute quota if such an action became necessary to protect the price support program.

In addition, the section 22 fee may be adjusted to account for the increase in duty-free sugar imports.

There is nothing in the sugar proposal to encourage greater sugar production in the Basin. In fact, the effect of other elements of the CBI will be to encourage diversification away from sugar.

We believe this is a workable solution to a difficult problem. It permits us to meet our responsibility to the domestic program while affording duty-free treatment in keeping with the spirit of the CBI, and it does so in a manner which should not cause concern among non-Basin sugar suppliers.

Let me conclude by emphasizing that the Caribbean Basin Initiative is a mutal commitment to reduce impediments to economic growth through a meaningful partnership—both regional and hemispheric.

Self-help is the final key needed to unlock the door to economic opportunity over the next decade. We are confident that the nations of the Basin are prepared to direct their economies in a manner which will tap the resources of entrepreneurs and workers alike.

Revitalization is not, and will not, be a unilateral concern. It is a goal that we will seek together, and in so doing, establish the basis for lasting peace and prosperity throughout the region.

Thank you for providing me the opportunity to give you a general overview. I would be very pleased to answer questions at the end of the presentation.

Mr. BOWEN. Thank you, Mr. Nelson. We appreciate your testimony.

At this time I would like to call on Michael Calingaert, Deputy Assistant Secretary of State for International Resources and Food Policy, Bureau of Economic and Business Affairs.

Let me say that Mr. Calingaert has been working actively along with Assistant Secretary Hormats to try to resolve a matter that we dealt with last time we had a hearing of this subcommittee.

There were several matters of interest involving trade with the Republic of Korea. We certainly hope that we are achieving substantial progress in that area.

We are very pleased to have you with us today to talk with us about CBI and sugar.

You may proceed.

**STATEMENT OF MICHAEL CALINGAERT, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES AND FOOD POLICY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. CALINGAERT. Thank you, Mr. Chairman.

Mr. Smith and Mr. Nelson have covered many of the issues that are involved here. I thought I perhaps would limit myself to some remarks about the Caribbean Basin Initiative in general terms and

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some references to our overall sugar policy international in adherence to the International Sugar Agreement.

My particular office is concerned with international commodity issues in general. As such we work closely with other parts of the executive branch in developing an effective approach to the sugar trade between the United States and the countries in the basin.

We believe that the system for sugar proposed in the initiative effectively serves our overall objectives in the basin, while at the same time it is consistent with our commitments under the International Sugar Agreement and the need to protect our domestic price support program.

As regards the initiative itself, as Mr. Nelson said, the program is a comprehensive series of measures by the United States to reverse the economic decline of the Caribbean Basin and to restart the process of self-sustaining growth.

This program responds to an economic crisis which is real and acute. These countries are, as the President pointed out in his message transmitting the program to the Congress, facing a very difficult international environment. Countries in the region are experiencing a plague of economic disasters: high rates of unemployment, low growth or negative growth, high inflation, and massive debts and capital flight. In other words, conditions which undermine the confidence of the people in these countries that they can survive, much less prosper.

The problems, that is, the economic problems there, I think, are well known and have been touched on.

The President's program will advance our national interests in the Basin in several ways. One is by alleviating the root causes of human misery which have stimulated a major and sustained flow of people from the Caribbean Basin into the United States by promoting long-term self-sustaining growth, thus reducing the need for future assistance from the United States and expanding markets for our goods.

Another is by strengthening regional cooperation and the principal of burden-sharing through coordination of our contribution with those in Mexico, Canada, Venezuela, and Colombia, and with self-help measures by the recipient nations themselves.

Also, the program will enhance the security of and prospects for democratic political evolution in the area by protecting our strategic and economic interests in the area in promoting the establishment of stable democratic governments friendly to the United States.

The President's program, Mr. Chairman, has some unusual features which will assure that it will have a significant impact in the Caribbean Basin.

First, it has been carefully designed as an integrated program combining several different types of economic measures—trade, investment, and aid.

Second, as I mentioned, it is not just an isolated U.S. effort, but is one that has been carefully coordinated and worked out along with the nations of the Basin itself and other potential donors. We have consulted closely with the governments and the private sector of the Caribbean basin countries. Our program reflects not only

our own assessment of their needs and resources, but also their own priorities and plans.

Third, the program is designed to help these countries to help themselves. While the countries want and need external support in the last analysis, any sort of program will be successful only if the people of the region make it so.

In sum, we are proposing a program that serves our vital interests by promoting the establishment of a region at peace with itself, free from outside threats, able to devote its energy and attention to economic programs, and the development of free political institutions.

The alternative to action by the United States and other concerned nations is a region increasingly unstable and increasingly hostile to the United States.

Sugar is necessarily a part of any such comprehensive effort. It is a major export from the region, accounting for 7 percent of the countries' earnings from trade with the United States. However in the United States, where the Basin sells most of its sugar, demand is declining. Some continuity in sugar earnings for Basin producers is highly important now, if they are to be successful in diversifying their economies over the longer term.

Certainly the best long-range answer to the problem of sugar exporters in developing countries, not only in the Basin, lies in a more stable world market for sugar.

We are working closely with other governments, both exporters and importers to achieve this in the International Sugar Agreement.

Unfortunately, the effectiveness of that institution has been blunted by the refusal of the European Community to join—a situation that has contributed to current low world prices and resulting distress in the Caribbean and elsewhere.

We have agreed to extend the agreement for 2 years to allow time for a successful renegotiation of that agreement. A more effective agreement could help stabilize world sugar prices at a level where both border protection for our own growers and preferences for the Basin might cease to be necessary.

This objective will thus continue to complement our particular concerns which we are discussing today relating to the Caribbean Basin.

Thank you, Mr. Chairman. I would be happy to answer any questions.

Mr. BOWEN. Thank you, Mr. Calingaert.

I would like to begin by asking collectively to you—and anyone may respond if he wishes—just what you estimate in the way of additional sugar which will come into the country as a result of CBI?

The calculations which were given to us, the figures of the total for the three countries—Dominican Republic, Guatemala, and Panama—are approximately 1.150 million metric tons.

That is an average, I believe, of 10 percent above the historic level. Is it your judgment that we will be receiving an additional 10 percent of sugar from those countries or that some adjustments might take place that would not bring that about?

Mr. SMITH. Mr. Chairman, we have made some forecasts. In 1981 the total amount of duty-free sugar that was entered was 1.2 million tons, or slightly over that amount.

I might add that was out of imports of about 4.6 million tons.

In 1982, we are forecasting total imports of 2.9 million tons, basically because of the high level of imports at the end of last year. This was mostly sugar entering in anticipation of the new legislation that went into effect supporting domestic sugar prices.

Of that 2.9 million tons, we calculate that duty-free imports would be around 1.6 million tons, or roughly 57 percent.

This is mainly due to the lower total imports.

For 1983, 1984, and 1985, we are forecasting that our imports would be up from about 2.9 million tons to an average of around 3.4 million tons.

Our duty-free imports will average around 2.5 million tons for an average of about 75 percent of imports which would be duty-free.

Mr. BOWEN. Just looking at those specific three countries that are the beneficiaries of this program and the fact that you have a quota which does put a cap on what comes in, specifically on that issue, how much sugar do you estimate might come in from those three countries?

Could we just focus specifically on that item? Anybody? Mr. Smith, you or any of your colleagues?

Mr. SMITH. The total quota for the three countries would be 1.150 million tons. Then we have an estimate for the rest of the Caribbean area—let me do a little calculating. Just a minute.

It would be 500,000. This would be about 1.6 million from the Caribbean area.

Mr. BOWEN. So you are estimating that the full 10 percent additional involved in this quota will probably be shipped into the United States?

Mr. SMITH. The main additional amount would be from the three countries that do not receive GSP. The others are shipping duty-free under GSP.

Mr. BOWEN. I am just asking about the three countries that have been listed.

Mr. SMITH. That would be about 1.150 million tons.

Mr. BOWEN. So you are saying as a result of the 2.8 cents break that they will bring it in.

What is the possibility that might put down pressure on domestic sugar prices by compelling domestic producers to try to sell sugar at lower prices in order to remain competitive? Or anybody else in the world who might also want to stay competitive?

What would your response to that be?

Mr. SMITH. Clearly the more duty-free sugar you bring in, the more pressure there is going to be on domestic prices. An adjustment is going to have to be made on the fee-side in order to offset that.

As I said, we have done a calculation in which the two key variables in there that you have to work with in order to theoretically offset the price averaging are the amount of duty-free sugar that is coming in, and the percentage of the total amount of duty preference split between importer and exporter.

Mr. BOWEN. In terms of the general situation regarding the legislation that we passed last year, of course we see that right now the market price is well below the market stabilization price, the goal or target which you have set.

What do you think you might do, particularly in the face of additional competition and potentially greater amount of sugar that might come into the country as a result of CBI?

What do you propose doing to help bring prices back up closer to what your market stabilization price is?

Mr. SMITH. You are right. We have not yet achieved the objective yet. We are quite concerned about that.

As you know, the proclamation that was issued was an emergency temporary proclamation. We are going to be undergoing ITC hearings very soon. We hope to have a thorough airing in these hearings. There have been several suggestions.

I think there are several things that can be done administratively that we are going to have to look at. We certainly are open to suggestions on that. It is absolutely clear that we have not met that price yet. There are several reasons for that.

We saw a great surge in imports just prior to the beginning of this year anticipating the new domestic legislation.

Thailand is exporting a lot of sugar, that is, shipping a lot of sugar because they will be exceeding the competitive need requirements under GSP. They are taking advantage of being able to ship as much sugar as possible before they lose that.

I think there also are some forecasts of additional imports coming in from India. So I think all these are new factors in the market which were not anticipated and need to be taken into account.

We certainly have to look at this very carefully.

Mr. BOWEN. Some suggestions have been made. For example, that you might switch to the number 12 spot as a basing point for computation and change the method for establishing the market stabilization price.

These are some of the technical changes that I presume you would consider to be feasible.

Mr. SMITH. These are all things that can be done administratively and under the proclamation. These are all things that will be looked at.

Mr. BOWEN. You are saying that those are actively under consideration as possibilities for achieving your goal?

Mr. SMITH. I will put it this way, Mr. Chairman. Our objective, our administrative objective, is that CCC will not take on any sugar.

Mr. BOWEN. So you will do everything you can do to insure that you will not acquire sugar, which is your goal and our goal? You intend to see that is done. Is that a fair statement?

Mr. SMITH. The administration is committed to that goal of not taking on any sugar.

Mr. BOWEN. There is just one final question I would like to ask. I think I might address that to Mr. Hammer.

I would like to know whether or not the Department of Agriculture has any intention of administering the sugar program any differently from other commodity loan programs?

Do you feel that the loan program for sugar essentially is the same for the loan program for any other commodity?

Mr. HAMMER. The question you obviously are driving at, Mr. Chairman, is this. You want to know whether or not the Department of Agriculture is prepared at this moment in time to rule in or out the question of forfeiture of interest.

This, at least, has been the question asked of us the most often which would be one differentiation which we might discuss.

In point of fact there are some differences between that loan program and others which primarily has to do with our section 22 fees and our border protection that we have.

So there are some differences between the sugar program and our other basic loan programs.

The other thing I would say is that at this point in time we have not stated whether or not we will or will not pursue this consideration. It will be examined.

We have been open to discussion of it. It will be examined in the same light that Mr. Smith just said. Of course, our overall goal is one of not acquiring any sugar. That may be difficult, at best, to achieve, but it will be looked at as to whether that will have any direct bearing or not on that.

But I am certainly sensitive to the question. I understand the concerns. I have listened to the industry. We have had meetings just yesterday with the industry. We intend to have them on an ongoing basis.

We do not have to make this decision now. All the decisions that we will be making in the April 6 hearing of the ITC emergency proclamation hearings and the purchase programs which we just closed off the comment period on the March 25 will all take care of almost any decision that we have to make regarding the loan program except the question on the one we have just discussed.

We will have several months between now and, say, mid-May or thereabouts to consider very closely the ramifications of this question.

Mr. BOWEN. It is just my feeling, and I think that of a good many of my colleagues, that nonrecourse means exactly what the words would connote to anybody who looks at it very closely and that is that there is no recourse beyond delivery of the mortgaged commodity.

Of course, to attempt to apply some charge other than to simply turn the commodity over would be unusual and unique, to put it mildly.

I think, given the legislative history which we have before us, and of course the practice over the many years that we have had nonrecourse loans, it would be indeed a shocking departure from tradition and from legislative intent, in my personal judgment.

I certainly hope that the Department does not seriously consider doing that.

As I remember last year in our conference with the Senate on the farm bill, that this very question was raised. There were one or two members of the conference who suggested that we might want to put some language in the legislation, in the conference report, the statement of managers, which might in some way require that interest be charged on the loan for sugar.

But it was the collective wisdom of the conferees that that action not be taken. It was not taken.

I would hope that this piece of legislative history would play an important part in any deliberations that the Department might make on this subject.

Mr. STANGELAND. If the gentleman would yield, I think it should be pointed out as well that there is a substantial difference in the sugar loan program and any other loan program in that we require the sugar loan to be paid within a specified period of time—the same fiscal year in which it is taken out—which puts some restraint on the borrower.

If the Department or if the Government allows the importation of duty-free sugar and increases the amount of sugar coming in at a time when it is being over-produced, causing lower prices and also causing the Government to provide these loans, I think would be grossly unfair to require that interest be paid on these nonrecourse loans.

Mr. BOWEN. I share the views of the gentleman.

At this time I will call on the gentleman from California, Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

All of my questions, I think, should be considered en bloc and whoever wants to respond to them can. I have tried to read through the Caribbean Basin Initiative in terms of its intent and purpose and have tried to understand how it works mechanically.

If we give them almost a 3-cent break under duties, and some in the countries in the area have that capability now, to what extent does that give them a competitive advantage in moving sugar?

Can they discount the costs by the amount they would save and sell their sugar over someone else? Is that being done today?

Mr. SMITH. Yes; there is now clear indications in the market that it is being discounted. Some indicate it is as much as 2 cents.

Mr. THOMAS. So a substantial portion of the excused duty is actually used to move their sugar.

I understand also that a portion of the intent of the Caribbean Basin Initiative is to help diversification in terms of the economy and in the agricultural area of diversification.

How, if they are using a portion of those duties to move the sugar, the diversification—does that not mean that they would continue emphasis on sugar if they have an ability to undersell other countries on the sugar?

Would that not keep you in the same commodity?

Mr. SMITH. In the case of the three countries, the major producers, that we have set the absolute quota, that is not a problem because the amount of sugar they ship is absolutely fixed.

In the case of the others, I guess you could argue that they are getting a windfall of a certain amount that would be an economic incentive.

The argument that is used against that is that they have been getting a windfall under the GSP program, although not at the level they will get under this program.

As a result of that windfall, there has not been any increase in the sugar production of the other GSP countries.

So the basic forecast that we are making is not showing any real substantial increase in production in the GSP countries.

As I said, the other three, which are the major producers, are capped at an absolute quota so it does not make any difference.

Mr. THOMAS. To the degree that these industries are part and parcel of governments that are going to be benefactors of the Caribbean Basin Initiative so that they can move in the words I believe, of Mr. Calingaert or Mr. Nelson, in terms of a more democratic and a more viable economic system, to the degree that governments are the ones who participate in the benefits through the reduction of duties—and I understand that—but do we not have some private sector people down there producing sugar?

Does anyone have any figures on what percent the private sector is involved in? It is either domestic in those particular countries, or American countries, or other foreign nationals involved in selling sugar.

Mr. SMITH. There is a mix, but there is a substantial portion of private production, particularly in the Dominican Republic.

Mr. THOMAS. So the duty reduction would benefit private companies. Are these nonnative? Are they Dominican companies or American companies?

Mr. SMITH. The only one I am familiar with is Gulf and Western which is an American company and has a large part of the production in the Dominican Republic.

I am sure there are others. I would be glad to submit it for the record. I do not have that with me.

Mr. THOMAS. Perhaps Mr. Nelson or Mr. Calingaert would explain to me how removing duties on sugar produced and sold by Gulf and Western, an American company, will benefit the Dominican Republic in terms of diversification of agriculture and the movement in the directions you indicated.

Mr. CALINGAERT. The basic issue, of course, is putting money into that economy.

As Mr. Smith said, there are limits built into this system, that is, the extent to which these countries would be able to ship to the United States.

The purpose, essentially, is one of letting the economy function and putting the money in that economy for whatever the development purposes are.

Mr. THOMAS. Even if it is a continuation and perhaps an expansion of the sugar trade because of the advantages they received under this initiative?

Mr. CALINGAERT. There certainly are very clear limits to which any expansion could take place. The program is such that one would not expect an expansion of the industry and of the exports to the United States.

Mr. THOMAS. So they simply take the profits and bring them home?

Mr. CALINGAERT. Obviously one does not know what happens to the profits. The free system works in different ways.

Mr. NELSON. Mr. Thomas, I do not know that I can add a whole lot to it, but let me read, if I may, from a contract I have here with a Dominican organization. It reads:

In the event that the United States grants to the Dominican Republic, any U.S. duty or tax exemption applicable to any sugar entered in the United States under the present contract, the amount of said duty or tax exemption shall be added to the FOB stowed price for said sugars.

This means, of course, that the exporter gets the difference between the current price and the price without the duty.

I did not say—but I think the President's proposal did—that we will be negotiating with individual countries for benefits under the CBI.

One of the things that we will be encouraging governments to do would be to tax the windfall that would result from this for the diversification, that is, hopefully for the diversification by governments into other areas away from sugar.

Mr. THOMAS. So you are really trying to get the money to the governments for purposes of diversification? You are indicating a taxing method on those who would receive benefits under the initiative.

Mr. NELSON. It is a very complex proposal. Of course, one of the things we would like to do is to diversify the economic base of these countries. It is a self-help mechanism.

We would very much like for those governments to be full partners with the private sector in doing so.

Mr. THOMAS. Was there any discussion about creating initiatives to set up a mechanism which would provide the break from duty-free status directly to the governments rather than trying to move it through private companies and then having a taxing policy initiated by the country to retrieve the money?

Mr. NELSON. Do you mean a tax rebate system?

Mr. THOMAS. A rebate, or some kind of a direct governmental assistance rather than allowing the break to go to a company and then encouraging the country in which the company operates to assess a tax to try to pick up the windfall profits from the duty provided in the initiative?

Mr. NELSON. I understand there was some discussion of how that might be done. It turns out to be something of an administrative nightmare that involves general funds and reappropriation and aid allocations by the Congress. It is an extremely difficult matter.

A lot of proposals were considered. You have before you now a general proposal. We are working to try to come up with something that is better than what we have already proposed, most certainly.

Mr. THOMAS. I am trying to remember the conference on the farm bill. Did we not—maybe the agriculture folks can help me—on our wool program when we were talking about the various levies, do we not have a program where the money goes into a kind of fund which is then earmarked and used for specific purposes rather than general fund allocations?

Mr. NELSON. That is section 32.

Mr. SMITH. I think the general answer to the question is really a legal question. I think there are precedents for earmarking funds for particular uses.

Our understanding, and I think mainly from the State Department and the AID legal section indicates that if funds are ear-

marked for foreign assistance, they still have to go through an appropriation process and have to go through the AID budget.

I think that was the main concern that was addressed when this option was presented. This option was clearly discussed as part of a proposal.

I think that was the main reason that it was rejected. I think there were some other reasons, also. Mr. Calingaert might want to comment on them from the general philosophy of the Caribbean basin proposal.

Mr. CALINGAERT. As was mentioned earlier, there are three main parts to the program. One is the free trade area, the trade component. There is a foreign aid package and there is an investment component.

The free trade area is one that applies across the board—sugar being one where obviously there are particular issues that have to be addressed.

The whole thrust of that program—and it would be the same for whatever is produced in the region and exported to the United States—is that those items would come in duty free in the United States.

Therefore, there would be benefits that would accrue to the exporters from that. We would not be tying foreign aid to a particular level of exports of a particular commodity.

The intention was to provide benefits back into the economy for its overall good, to carry out the trade creation part of the initiative.

Mr. THOMAS. My time is very short. Let me just ask one additional question on that point.

You indicated, Mr. Smith, that if we allow the duty free, obviously it is going to have to be made up in terms of additional fees and that those would come from those countries who do not benefit from either GSP or duty-free arrangement.

You also indicated that apparently Thailand is moving a lot of sugar and will be in violation of their GSP requirements.

We have a requirement that we can only levy 50 percent in terms of duties and fees. Is there a possibility that we would bump up against that requirement and move to a quota if we allow the duty-free arrangement?

Mr. HAMMER. First of all, let me say that section 22 fees will apply to all countries. But your point is still well taken.

Mr. THOMAS. It will still be duty free so it is going to have to come from somebody else. You increase everybody's fees. They pay slightly more but the other country pays the duty plus the increased fees.

Mr. HAMMER. That is correct.

To the extent that our percentage of duty-free sugar goes up, we do incur some of these administrative problems that we have been talking about in running the program.

It does make the difficulty of supporting the price that much more difficult.

Mr. THOMAS. In the Department's opinion, is there a possibility that quotas might need to be imposed?

Mr. HAMMER. There is a price below which, if the world price falls, we feel we will not be able to not support the price.

Mr. THOMAS. How close are we?

Mr. HAMMER. I would say that we are within 1 or 2 pennies of that price now.

Mr. THOMAS. So that although the duty-free aspect might have some minimal benefits in terms of a conceptual approach to the overall Caribbean Basin Initiative, it clearly causes some administrative problems and perhaps some very real relationship problems among other nations who are not benefactors under this initiative?

Is that a fair statement?

Mr. HAMMER. Yes, in spite of our good efforts and our good intentions to not take over any sugar in the domestic program, there is a price that in spite of these intentions we could well take over sugar.

Mr. THOMAS. Thank you.

Thank you, Mr. Chairman.

Mr. BOWEN. The gentleman from California, Mr. Coelho?

Mr. COELHO. Thank you, Mr. Chairman.

I would like to pursue just a couple of points, the point that Mr. Thomas made.

Are you, in effect, saying, Mr. Hammer, that we would move to quotas or that you would drop the ad valorem limit? Where are you going to go if you get into a problem? Are you going to move to quotas?

Mr. SMITH. I do not believe that changing the—well, unfortunately our section 22 ad valorem rate works in a way that boggles commonsense.

When we have a dollar price for sugar, we have all the protection we need. When we have 8- and 9-cent sugar, we do not have all that much protection.

So it puts us in a bit of a quandary.

We have not addressed the subject specifically of whether or not we would impose quotas, but in the option of preventing the U.S. Government from taking over any sugar, that certainly has to be high on the option list at a certain price level.

Mr. COELHO. And in one case or the other, would you have to come back to the Congress for authorization?

Mr. HAMMER. No, sir.

Mr. COELHO. Let me pursue a question in regard to one Mr. Bowen raised in your consideration of charging interest on sugar that is under loan.

Do you feel that you have to come to the Congress to get authority to do that? Do you think you have the authority? What does your investigation at this particular point show?

Mr. HAMMER. We are of the opinion that we have the legal authority. However, I would like to say that we would expect to counsel with the Agriculture Committee at great length on that matter.

Mr. COELHO. Could I ask you, Mr. Hammer, what you mean by counsel?

Mr. HAMMER. Discuss the issue greatly.

Mr. COELHO. What do you mean by discuss? Do you mean just to tell us so we can listen? Or do you mean to ask——

Mr. HAMMER. We have been talking with industry. We will talk with you in any form. We at the present time have not foreclosed

that as a means of operating the program without taking over any sugar.

Mr. COELHO. So, you are saying, in effect, that before you make a decision at the Department of Agriculture, that you will come and discuss it with members of this subcommittee so that we have some knowledge as to what you are thinking before you make a decision, or after you make a decision?

Mr. HAMMER. Before, sir.

Mr. COELHO. We happen to be very close friends. I get a kick out of this sir, bit. I kind of like that. [Laughter.]

Mr. COELHO. The other thing that I would like to just have for the record—and I assume it is the case—is this.

We do not charge interest on any other commodity that is involved?

Mr. HAMMER. That is correct.

Mr. COELHO. And you are considering doing that with any other commodity, or just sugar?

Mr. HAMMER. No, sir, at this present time it would be unthinkable to suggest that we are considering this on other commodities.

Mr. COELHO. Is there any consideration at all when you talk about charging interest that it might have the effect of depressing the price for producers?

It seems to me if you put interest on that, you are, in effect, lowering the producer price or that it would have a negative impact on the producer price.

Would you agree with that? Do you disagree with that?

Mr. HAMMER. Congressman Coelho, I am not sure that I agree one way or the other. I have heard two sides of the argument saying that without forfeiture of the interest being paid that there might be in certain circumstances incentive for certain sugar to be given to the Government even though the price conditions might warrant otherwise retaining the sugar.

Mr. COELHO. But you would acknowledge there is a legitimate debate on this issue and that there is an argument, and a legitimate argument, that it could have a negative impact on the price for producers?

Mr. HAMMER. I am sure there is an argument on both sides. As I suggested earlier, we do not have to reach this decision now. We will not even be going out for comment until mid-May. We will have 60 days worth of comment.

We are in the process right now of trying to determine what is the best for the industry and what is best for the Government in terms of running the sugar program.

I do not mean to say one way or the other that we have made up our mind what we want to do. I am just not at liberty to tell you that we have thrown that option out.

Mr. COELHO. When you say industry, you do include producers in that?

Mr. HAMMER. Absolutely, sir.

Mr. COELHO. I would just like to get away from sugar for 1 quick second here and just talk about the Caribbean Initiative and the whole trade issue.

Mr. Hammer, you are acknowledged as someone who has extensive background in regards to trade.

When the 1974 act was passed, it basically was passed to encourage developing countries to establish their manufacturing capability and to encourage them to make a move in that area.

What we have basically with GSP now is the 70 percent of the items on the list are agricultural, items, which obviously are not manufactured.

Do you think that was the intent of the act to move in the area of agriculture so that it is overwhelmingly agriculture-oriented?

Was it to go into the manufactured area?

Mr. HAMMER. As I understand the original congressional intent of GSP programs, it was to be largely manufactured or semimanufactured products.

Mr. COELHO. I have an amendment pending before the Trade Subcommittee on Ways and Means which I intend to pursue that would prohibit agricultural products from being added to GSP at this point.

I would not want to ask you at this point where the Department of Agriculture would stand on that issue. But it would seem to me it would be something that would be highly popular among your constituency.

I talk about your constituency being the agricultural constituency, not other people in town.

I would hope that the Department would study that and consider whether or not it does or does not make sense. I know that Mr. Nelson may not like it and I know that people over in other areas of the Government may not like it.

But in fairness the whole GSP question has been abused. It was not the legislative intent to move into agriculture. It has been an easy thing to do politically and agriculture has lost in each one of these cases.

It does not make any sense for us to continue this practice. I would hope that Agriculture would review this and that we might be able to get some support from the Department.

If you would prefer not to respond at this time because I did not alert you to the fact I would be asking this, it would be all right with me.

But I just want you to know that I intend to pursue that question and to come after the Department at some point as to where they actually stand.

Mr. BOWEN. Let me interrupt at this point. We have 4 or 5 minutes left on this vote. Maybe Mr. Hammer might want the following 10 minutes to reflect on this and to cogitate a little bit on this and give you an answer at that time.

Mr. COELHO. I would like that.

Mr. BOWEN. We will take a short recess.

[Recess taken.]

Mr. BOWEN. The subcommittee will resume its sitting.

We want to apologize to you for our extended absence. We had three rollcall votes on the floor involving providing the finances necessary to enable our committees to stay in business.

We know you want that done because without this committee here you would not have this outstanding forum to display your talents to the public and our good friends at the witness table.

We are now pleased to proceed. I believe that Mr. Coelho was involved in a line of questioning that he would like to continue at this time.

Mr. COELHO. Thank you, Mr. Chairman.

I did not really mean for the administration to have an hour to discuss the question. I thought 10 minutes was too long.

But now that you have had an hour to check it out, and I am sure with the efficiency of this administration, you have even been able to go to OMB and get a decision there and you have been back.

So, Mr. Hammer, would you be able to tell me what the inclination of the Department would be on an amendment that obviously is in the best interest of American agriculture?

Mr. HAMMER. I am afraid that all of the time we have had still will not do justice to the question that you asked us.

I can assure you, however, that the constituents that you mentioned to me will be in touch with us soon.

Mr. COELHO. I would concur with that.

Mr. HAMMER. I would be surprised otherwise. We, of course, will be examining and have been examining GSP as the time for renewal of GSP is not that far away.

The administration, of course, will be prepared to respond. We have talked within interagency groups. There may be some recommendations that we can make that may be of assistance to you.

Mr. COELHO. In all seriousness, I think the 1974 act has been abused in this area. I think most of us that deal with that trade bill recognize this was not the intent and this is an opportunity, I think, for the administration to help make some corrections.

I do think there is some support in the Ways and Means Committee to make some adjustments and with some initiative provided by the Department and maybe even some initiative by STR that if you listen to some of the things I read in the paper, STR should be inclined to be supportive here.

But I do not know if Mr. Nelson is prepared to say anything or not. Are you, Mr. Nelson?

Mr. NELSON. Well, sir, I believe that the message that the President——

Mr. COELHO. Mr. Nelson was a lot more fun when he was in Mexico than he is back here.

Mr. NELSON. It was a lot more fun being in Mexico than sitting here. [Laughter.]

Mr. NELSON. I believe when the President transmitted the proposal for GSP to the Congress he did, in fact, say that it was the intention of the administration that only a limited number of agricultural products would be covered by the GSP.

I have looked at the written legislative history of the Trade Act as regards GSP. I do not find—and I would love to be corrected on this—any particular reference to the wishes of the Congress that the program be so limited.

Mr. COELHO. Mr. Nelson, the only thing I say in response is that when I testified before the Ways and Means Committee, the Trade Subcommittee last week, the chairman of the Trade Subcommittee agreed that it was not the intent of the legislation.

I do remember in 1974 who the Trade Ambassador was at that particular time. It happens to be a good friend of mine. He said to the California delegation under some questioning at the time and as he moved around Capitol Hill as he was so capable of doing, that:

"Not to worry agriculture; this is not going to be a negative because this is not intended towards you."

That was sort of what the intent was and which was spelled out in lots of conversations and a lot of verbiage.

Based on the good will that usually exists between the Congress and the Executive, you do not always put down in writing everything that is intended.

Sometimes I feel that we should. But in this particular case this is another example of where we did not.

I do think if we can get the Trade Subcommittee to address the issue and if we could get some support out of the administration, we can make some corrections.

I am not saying that everything should be eliminated. But if we do not make any, I think we should get the agricultural community up on its hind legs and say:

"Stop; stop everything until we get some corrections made."

That is the position I am taking right now. I would not mind negotiating to something that makes sense.

Mr. NELSON. Your point is well taken. As the person in the Trade Representative's office who feels the brunt of the discomfort that the agricultural community feels with this program I would say at this point that I will take back to those more directly involved in GSP programs your concern about this.

We will be very happy to work with you on the program.

Mr. COELHO. The other thing I would say, Mr. Chairman, as my last point, is that in regards to the Caribbean Initiative, my big concern is this.

Sure, I am in support of trying to help out the Caribbean area in regard to better advancing themselves. I think that is important. That is an obligation that we as a country have, I think, to help out our neighbors.

But I would hope that as we move forth—and I intend to be very vocal on this—we not do it again on the backs of agriculture. I think it is wrong and it is unfair that we not address it. I intend to make it an issue.

If we have to, we will make sure that everybody who has some involvement in the agricultural community on the House floor and on the Senate floor addresses this issue. I think it is very critical. I do not think again, in a case like this, that the agricultural community should be expected to shoulder the burden.

We want to share the burden just like we do on a lot of other things. We do it very well.

But I do not think we should shoulder the burden in regards to trade with other countries. So, I intend to be very forceful in this one.

I would like to cooperate with the Department. I have said that to the Department. I would like to cooperate with the Trade Office.

I would like to do it and I intend to do it if there is some receptivity.

That is all I would like to get from you. Thank you. I appreciate your comments very much.

Thank you, Mr. Chairman.

Mr. BOWEN. We will have other colleagues joining us shortly who will have other questions to ask.

I have one point I would like to raise at this time. One of you and I do not recall which one of you, mentioned that you will be encouraging the Dominican Republic to levy a tax on the differential involved in the saving as a result of the duty that they would not be paying.

Of course, that is one way that you could attempt to stabilize the price of their sugar imported into this country. But that is somewhat unpredictable and slow and extremely uncertain because it depends upon independent action of three different nations in the Caribbean area.

What about an alternative to that which would accomplish the same thing, I think, in terms of at least defending the American market and looking after the interests of other countries who do not have this particular preferential service?

That would be to allow the United States to collect the duty and then make a rebate to those three CBI countries who are eligible under the program.

What would be the feasibility of taking that kind of action?

Mr. CALINGAERT. I think the point, Mr. Chairman, as I mentioned earlier, is this.

We are talking about an overall initiative that covers three kinds of issues. That proposal would result, in effect, in a form of aid rather than a trade benefit to the recipient country.

Part of the package, indeed, is an AID package going through the normal AID processes in collaboration with recipient countries working out a program which we collectively deem to be appropriate.

Mr. BOWEN. If I might interrupt, we, of course, discussed earlier the problem of trying to insure that the benefits of what we are doing here goes directly to the countries rather than flow out in terms of the corporate structure elsewhere.

Of course, that is one way to make absolutely certain that the benefits we are intending to achieve in this legislation go directly to the country.

We do two things. We insure that those benefits go directly to the country and the government concerned and, at the same time, we provide a degree of protection that would protect our own domestic sugar market from the possible destablizing effects of the competitive forces of sugar coming in duty-free.

I am trying to figure out just why that would not be a very attractive way of handling this matter.

Mr. HAMMER. Mr. Chairman, are you suggesting that we tax all GSP countries or those in the Caribbean?

Mr. BOWEN. We are talking about those who would have duty applied to them without this legislation.

If we do pass this legislation, we could continue to collect the duty, but we would make payments to those countries who are subject to the legislation, the CBI, mainly, the Dominican Republic, Guatemala, and Panama.

In that way we would channel the money right back and at the same time we would not create substantial difficulties for our domestic market nor would we create competitive difficulties for other nations who are exporting sugar to this country.

Mr. HAMMER. I think it was mentioned earlier while there would probably be some benefit at least to the uncertainties surrounding the domestic sugar operation and the domestic sugar program from an approach such as this certainly would ease those administrative burdens, I think.

As I heard the other considerations stated, it would require the earmarking of funds which has not been a policy that we have chosen to follow.

But I also believe, to come back to the AID program itself, it would require not only authorization but appropriations and even raising budget ceilings for the foreign aid in terms of legislation.

All those, at this point in time, it seems to me, would cast some doubt on the Government's desires to help the Caribbean basin.

Mr. BOWEN. We could go the route also of just applying the duty on all countries, including GSP and non-GSP and then just have the Government rebate to the GSP countries.

Is that proposal being considered in the administration at this time?

Mr. HAMMER. I do not believe that we have consideration of rebating going on at this time. I know, as Dick Smith mentioned, we have had a rather full blown discussion of the issue.

We came forward with the ultimate proposal that we hope would be sufficient to defend the sugar program against the duty-free treatment granted those three countries.

Mr. BOWEN. I know that the gentleman from Hawaii, Mr. Akaka, is now here. He and I had both talked about this proposal.

I know also that Mr. Heftel from Hawaii wanted to be with us. He has a conflicting committee meeting and could not be here.

It is quite possible that Mr. Akaka might want to pursue this issue since I know he is very much concerned about it. At this time I would like to recognize the gentleman from Hawaii who is a former member of the Agriculture Committee.

We are very pleased to have him back with us today.

Mr. AKAKA. Thank you very much, Mr. Chairman.

I am grateful for the opportunity to speak with you once again, Mr. Hammer.

I think you know that in testimony before the Ways and Means Subcommittee on Trade, I recommended that a change be made in the Caribbean Basin Initiative by continuing to collect duties on imported Caribbean sugar and subsequently rebating that duty to the individual governments of the region.

This has precedence. The administration has proposed, as I understand it, rebates by recommending that the excise tax on rum be rebated to Puerto Rico and the Virgin Islands when this Caribbean Initiative was being considered.

I look upon this as having some strong advantages.

I also look upon this as having benefits to those countries who really need it the most. Those are the underdeveloped countries in that region. This will be going to their governments rather than

multinational corporations that own a majority of the sugar production resources in the region.

It would also give the countries of that region more control over their economic development. It would also lessen the need for higher import fees on imported sugar.

But most importantly, it would lessen the chance that our Government will have to acquire sugar through forfeiture of sugar placed under loan.

As I indicated, the proposal to collect duties on imported Caribbean sugar and subsequently rebate that duty to the individual governments of the region has broad appeal.

What is your reaction to this idea? I know this has been asked. But let me ask it again in the form of maybe a response from the Special Trade Representative or the Foreign Agriculture Service or from possibly the State Department.

Mr. NELSON. I will try.

As Mr. Hammer just mentioned, this system of rebates would, in fact, constitute a new foreign aid program. It would be subject to full authorization appropriation process.

This means we would have to go through the annual budget review. It would be part of the AID budget ceiling. I am not certain exactly how it would fare in the committees of the Congress.

If it were tied simply to the sugar imports, it could be pretty inflexible as a way of distributing aid. If it displaced other forms of aid once put into the context of the general appropriation for an individual country, it could, in fact, skew aid toward those countries which are major sugar exporters and away from those who have a lesser impact on the area's trade in sugar.

We would like to encourage governments with whom we are negotiating for participation within the CBI to tax the proceeds therefrom so that it would not be a "windfall" to the private sector in those countries.

The funds raised in that taxation would be used to diversify into other areas. We would hope in this way to make certain that the funds that are generated internally by the system would go to benefit that individual country.

We will be—and I would like to stress that—negotiating participation in this program. We will be asking governments to undertake certain measures that we and they feel will be beneficial to their economies.

Mr. AKAKA. Would you say that should this rebate concept be accepted and finally be made a part of this bill, would you say that this would keep the CCC from owning sugar?

Would you say it would probably prevent forfeitures?

Mr. HAMMER. Congressman Akaka, we this afternoon talked about a number of problems that are affecting adversely the sugar market and, therefore, enhancing the possibility of us taking over sugar.

There is the large overhang in the market and the soft economy. But I would have to say that the GSP nations can cause this trouble. But we believe that we have come with the proposal to the Congress on those three countries which you mentioned which will allow us to shut down those imports if it looks as though it is going

to be the problem itself that would be causing us to take over sugar.

We have a two or three point program. We hope that as you review it, you will come to recognize that it will provide sufficient protection for the Secretary to operate the program.

That is not to say that we do not have other problems or that it may not be another uncertainty overhanging the domestic sugar market in the program.

But we believe that we have come up with a program that will allow us to operate within those constraints.

Mr. CALINGAERT. I would like to add something.

The program does have to be looked at across the board.

In other words, it is not simply a sugar program under the free trade area as proposed. Sugar would be one of those items exported by the countries in question.

The thrust of that program is that, through the mechanism of waiving the duties, there would be additional money that would flow into the economy which would be used for the development of the economy, including diversification.

That is one important factor in the overall initiative.

In terms of the AID program, it certainly is a more efficient means of AID to target specific amounts of money for specific projects and programs rather than simply using this kind of a mechanism to turn the moneys over to a government for it to use as it sees fit.

Indeed, our AID practice, across-the-board, has been one of working out specific programs and projects which we and the recipient country deem to be most appropriate for economic development there.

We would rather see this as benefits being given to the economies through some measure of trade advantage to the producers.

The program obviously has to be devised in a way that is going to protect U.S. domestic programs. That is, of course, what the gentlemen from Agriculture have been describing this afternoon.

Mr. AKAKA. I am concerned with the testimony by Mr. Nelson and alluded to by other testimonies that have been presented today.

This initiative is designed not to encourage greater sugar production in the Caribbean Basin. Yet I look at the front page of the bill and the bill is to promote economic revitilization and facilitate expansion of economic opportunity.

I know in the President's speech he did have several points of his program, of which one was investment.

Investment opportunities were named as well as possible tax breaks for those investments.

I am worried about whether this is what is meant will happen. We hope that those countries will not expand their production in sugar over the 12 years that is the tenure of the bill.

Can you elaborate on that—any one of you?

Mr. CALINGAERT. The issue of what will happen with production in the recipient countries is one that obviously will depend on the economics in question.

It is hard to see under this scheme that there would be incentive for the kind of massive investment that would be required to expand production in those countries.

At the present time with depressed prices, the program would operate to give some margin of benefit to the countries.

There is an absolute limit on the amount that could be shipped to the United States—which is a ceiling, of course.

At such time that world prices do rise, then any particular benefit to those countries would be wiped out because all importers would be treated on the same basis.

Mr. AKAKA. We also are concerned about this. The volume of sugar that is expected to be imported from this area is 1.26 million tons. We are afraid this might affect the implementation of the sugar portion of the Agriculture and Food Act of 1981.

Mr. Chairman, let me just express another concern here. This was mentioned earlier and that is the repayment of interest in the event of forfeiture.

I know this is being discussed, but I would like to make the point that other commodities are not being treated in this way. If this ever comes about I look upon this as a discriminatory act against sugar.

It will be unfair against sugar to expect repayment of interest in the event of forfeiture and hope that in your deliberations you will find that this will not be added to the policies related to sugar.

Let me just ask whether you have any comments about that.

Mr. HAMMER. We have had a discussion of this before you were able to be here.

Let me reiterate that the position of the Department is that it is still open on that question. We have not made a determination either way. But we are anxious to get all viewpoints on this matter before any decision whatsoever is made on this subject. We are not forced to make a ruling on the subject for some time.

Perhaps we can come to some grips with it earlier to remove any uncertainty that may exist as a result of my having to be rather neutral on this question at this time.

I certainly understand your feelings.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. BOWEN. The gentleman from Washington, Mr. Morrison?

Mr. MORRISON. Thank you, Mr. Chairman.

Mr. Hammer, since you are close to being up against the limit so far as the ad valorem fee is concerned, I might presume in answers to other questions you have talked about imposing quotas.

Could you be a little more specific as to what kind of quotas you would consider? Would they be global and on an annual basis? Would they be global and on a quarterly basis? Or would it be country-by-country quotas?

Mr. HAMMER. First of all, I said that quotas were an option that we could not rule at this point in time.

I am not prepared to say what kind of quotas, if any, we would have. It certainly is an option which we must examine as we get too close to the price where fees and duties cannot protect the program.

But there are other things administratively that have been discussed with people within the sugar industry that are closer to the situation than we are.

We are looking at some of the calculations that we do. We are looking at the No. 11 contract versus the No. 12.

We are looking at a number of things which we had to do—and I will not say in haste—rather rapidly in order to get the proclamation in place by December 31, 1981.

We had very little time to pat ourselves on the back and say what a good job we have done, but we recognize now that there is plenty more work to do in this area of administering a sugar program.

We are examining all those things. I must say that no stone will be unturned.

But as to whether we will have quotas and, if so, how they would be operated, we have not had an in-depth discussion of that at this time.

Mr. MORRISON. Thank you.

It does appear to me that the bill does put the administration in the position of depending primarily on quotas to protect our domestic price.

I have one additional question. Since approximately two-thirds of our imports come from Caribbean countries that are eligible for quotas, why does not the administration lower or eliminate duties and fees and rely entirely on quotas?

Mr. HAMMER. I think there has been some belief on our behalf that the way—not a total belief on our behalf—to achieve this is through border protection without resorting to quotas.

We do find ourselves in an international price situation which can, at its lower limit, create some problems for us in terms of not making CCC the most attractive opportunity in the market on sugar.

But it is our stated preference and our intention to do this through the fee mechanism if at all possible.

Mr. MORRISON. Thank you, Mr. Chairman.

I yield back the balance of my time.

Mr. BOWEN. Let me just get back to this.

Perhaps we can finish up the discussion that we were involved in a little earlier and that is the question of rebating duties or some alternative to that.

Let me make sure that I understand this. I believe you were addressing this point, Mr. Hammer. It is your feeling that if we use the procedure of collecting duties—whether we did it for all GSP countries or whether we just did it for the three non-GSP countries who are now being given, in effect, GSP status under the CBI, and then attempted to rebate those back to insure that the governments in question received it, your objection is this.

This would then become a part of our budgetary process and would be subject to some of the perils and problems of the budget process if we wanted to use that avenue; is that correct?

Mr. HAMMER. First of all, if we are talking just about the three countries and the GSP for the three countries in the Caribbean Basin that we have been discussing, I would hope that the language that we provided with you would state this.

It would permit the President to suspend the duty-free treatment on all or part of the absolute quota if such action became necessary to protect the price support program.

This would provide you with the sufficient relief. Then if we need fees we can apply fees to that. That would take care of that problem.

It is our hope that by having absolute quotas, the ability to apply fees and the ability to suspend the GSP treatment at any time we see jeopardy to the program coming we have done a sufficient job to take care of it.

The point I was making was not a point that I would make as someone who administers a program. There are other congressional hurdles to jump by going the other route, that is, the appropriation authorizations and the changing of the budget ceiling which is really not in my area. It is more in the foreign policy area. It is a foreign aid type thing.

Mr. BOWEN. Of course, you see what I am trying to do is actually to seek a method of helping these three countries. I am not trying to cut them off.

I am just trying to find a way to provide some actual assistance without doing damage to our domestic industry. That seems one avenue.

Of course, there is another avenue which has been mentioned and that is for those three countries to apply some kind of windfall profits tax in the amount of the duty.

It seems to me that would be a feasible area of diplomatic activity and, in fact, it would seem to me to be, shall we say, not unreasonable for us to request of these three countries that they apply such a windfall profits tax rather than simply encouraging this.

I realize that encouraging is a nice concept but it is not very positive in terms of swift action and it might not necessarily be complied with.

Whereas, if we required it as a condition, I wonder if someone might comment on any of the problems—diplomatic or otherwise—that we might encounter if we required that as a condition of participation?

Mr. Calingaert from the State Department?

Mr. CALINGAERT. As I understand the process under the sugar rebates, they would be new obligational authority for AID and, therefore, necessarily go into that channel.

Then it really becomes part of the normal AID process. There is a question as to what use would be made and under what conditions.

I think what you are suggesting is that it be treated as part of an AID program under the normal procedures.

It is one thing simply to have it rebated to the governments as you suggest and try moral persuasion. The more normal AID practice, of course, is that obviously any funds that come from the United States are decided upon jointly in terms of these programs and projects that we are trying to carry out.

Mr. BOWEN. I am not suggesting any one avenue. I am simply saying I would like to find a way to do it. Of course, I am asking how it could be done.

I gather the response I am getting is the one you have mentioned, and you also, Mr. Hammer, which is if we collected those duties ourselves and then attempted to rebate them, the only way we could do so would be to treat that as a part of the foreign assistance program and put it under the normal budget system.

I presume that is what you are saying. It would then create complications.

I am not saying that I have rejected that as an alternative from my personal perspective. But I am simply exploring other avenues. I am suggesting one avenue might be to require, as a condition of cooperation in this program, that the three countries who are receiving this additional special treatment apply, in effect, a windfall profits tax.

I was inquiring as to what diplomatic complications might ensue.

Mr. THOMAS. If the gentleman would yield, when I asked my original question, I was told that it would be an administrative nightmare. You have now given an explanation to the chairman that it must fall as new obligation under the budget and AID handled as normal aid.

Must it? Or is that the way you perceive it? Is it not possible to set up a trust fund, a particular earmarked fund for those monies coming in on a rebate basis? It would have special categories in terms of how they would be disbursed.

Mr. HAMMER. I was instructed, Congressman Thomas, that it would go into general revenues.

Mr. THOMAS. If you do nothing——

Mr. HAMMER. Then it would have to be earmarked after that. I am not certain as to how that would be accomplished. I am sure that we could provide an answer to you.

Mr. THOMAS. Is that how the wool duties are handled?

Mr. HAMMER. That comes in under our section 32 authority.

Mr. THOMAS. And it is impossible to do that?

Mr. HAMMER. I do not believe so.

Mr. THOMAS. Or something similar?

Mr. HAMMER. We would have to create a new earmarking authority. But I do not think there is any way you could use section 32.

Mr. THOMAS. If we created a new earmarked authority we would not have to go through the complications that you structured; is that true?

Mr. HAMMER. I cannot answer that.

Mr. CALINGAERT. I do not pretend to be an expert on this, Congressman Thomas.

My understanding is this. I understand we had some informal consultations with the Congressional Budget Office and that it would necessarily be under item 150 of foreign aid.

Mr. THOMAS. It must and absolutely and necessarily be under item 150; is that what you are telling me?

Mr. CALINGAERT. That is my understanding.

Mr. THOMAS. Of course we are in a position, if I might comment on this, at the time we are considering this legislation to adopt the necessary language to enable us to treat this in a manner different from what we otherwise be able to, that is, if we chose not to handle this as a normal part of the AID budget, but simply to put

it in a special trust fund or handle it in any other manner so that we could achieve these ends.

Of course, that would present no problems. I presume you are not taking a position for or against that action should the Congress see fit to move in that direction?

Mr. HAMMER. That would be presumptuous of us to tell Congress what they could do. This was a considered approach that we brought to you for your attention.

Mr. THOMAS. Thank you, Mr. Chairman, for yielding. I have one additional point.

Since I have been told that was your understanding, Mr. Calingaert, could you give us in writing, who, when, where and what circumstances it was explained to you that the item 150 account was the only one available so that I at least have a benchmark to operate from?

It seems to me that since you have chosen the duty-free route, and you indicated that one of the reasons you did so was because of the administrative nightmares on the other side, what I see is by choosing the duty-free route, you have a possibility of actually stimulating sugar production.

Aid will go to American or other national companies rather than the Caribbean Basin countries. Other countries outside the Caribbean Basin wind up paying partially the freight because of the duty-free aspect.

You create quota potential possibilities under the Department of Agriculture in terms of sustaining the sugar program that we have and whatever else may occur because of your choice of the duty-free approach.

It seems to me that I want to make sure that other approach was thoroughly exhausted and even if it requires new legislation, we may go ahead and legislate.

I would like to have as a benchmark what was explained to you from the Congressional Budget Office or your other administrative sources in terms of your budgetary capacity and the limitation and the nightmares placed upon reality as we know it today in terms of the budgetary process.

Mr. CALINGAERT. We will be happy to provide information. As I said, I am not an expert on that.

Mr. THOMAS. I hope you had expert advice when you made the decision and that expert advice is available to me and you will provide it in writing.

Mr. CALINGAERT. I will be happy to do that.

Mr. THOMAS. Thank you.

Mr. BOWEN. Without objection, that will be placed in the record at this point.

[Material to be supplied follows:]

DEPARTMENT OF STATE

Washington, D.C. 20520

APR 2 9 1982

Dear Mr. Thomas:

In response to your inquiry during hearings of the House Agriculture Subcommittee on Cotton, Rice and Sugar on March 31, 1982, we have checked the record of interagency discussions last winter concerning a possible tariff rebate approach to sugar imports under the Caribbean Basin Initiative.

The initial question has been whether the rebate would be treated as an annual appropriation in the 150 account or whether it might be handled as a trust fund outside the normal authorization and appropriations process. OMB believes that the trust fund approach would be inconsistent with the intent of the Congressional Budget Act, i.e. that government expenditures should normally go through an annual programatic review and be examined by responsible appropriations committees. This Administration likewise seeks to avoid earmarking budget receipts for specific purposes. In this connection, it has been noted that existing rebate schemes such as the Puerto Rico/Virgin Islands "Rum Fund" (excise taxes on rum which are returned to these dependancies) and the National Wool Act (tariffs earmarked for the U.S. wool industry) pre-date the Congressional Budget Act.

A rebate system could entail other serious difficulties which were referred to during the March 31 hearing. Briefly, the Function 150 account will be extremely tight in FY 1983. If the rebate is enacted, it is very possible that room for it in the budget process will be made only by cutting other assistance activities, perhaps including existing programs for the Caribbean Basin.

The effect could be no net increase in foreign assistance resources available to the Basin as a result of the rebate. In addition, assistance might be skewed towards those countries who are major sugar exporters and away from countries whose assistance priority may be greater, from the perspective both of economic needs and of U.S. foreign policy objectives.

Sincerely,

Powell A. Moore

Powell A. Moore
Assistant Secretary for
Congressional Relations

The Honorable
William M. Thomas,
House of Representatives.

Mr. NELSON. Mr. Chairman, may I reply to one point Mr. Thomas made which has been made a couple of times earlier and that is the reference on several occasions to U.S. multinational firms.

It is true that in some of these countries a U.S. multinational firm is a sizeable factor in the sugar economy, but in many of these countries, including the three that we are discussing here, the private sector controls the production and the exportation of sugar.

One of the points that the administration chooses or wishes to emphasize is that the private sector has a legitimate role in the development and the diversification of the economies in these countries.

We do hope that in those instances where there is a windfall to a producer and exporter, that will be used within the economy itself and it would not be rebated to stockholders in the United States or in some other country, having first admitted that indeed there are multinationals that operate in those countries.

Mr. ALBOSTA. Mr. Chairman, on that point, I would like to say this.

Mr. BOWEN. In fact, at this point I was going to recognize the gentleman from Michigan and indicate to him that I want to apologize for taking so long to get to him.

We are very pleased to have Mr. Albosta as a member of this subcommittee. We are delighted to have you with us. I recognize you at this point.

Mr. ALBOSTA. Thank you very much, Mr. Chairman.

I find it a little bit hard to understand why you would think it would be so complicated to set up a quota system and some type of refund if that would be the best way to handle it for the nations that are involved themselves.

I just cannot believe that we are bucking things. I agree with Mr. Thomas in terms of trying to explain on paper why that is so difficult.

I want to get into the quota area.

If I understood you correctly, you said a few moments ago in answering some questions that you have not made a decision on the quota yet; is that correct?

Mr. HAMMER. That is correct.

Mr. ALBOSTA. When will you make that decision? How will you make it? What will it be based upon?

Mr. HAMMER. All I can say at this point in time is that we are examining all of the decisions that we have made and that we need to make regarding the administration of a purchase and loan program.

To that extent, border protection is a major function of that given our requirement for imported sugar in the United States.

How we achieve the border protection and the equivalent amount in fees or quotas and what, in fact, is the appropriate border protectlon amount are questions that we are working on.

The better portion of my day is consumed with this problem right now.

Mr. ALBOSTA. If you are working on it, Mr. Hammer, where do you stand on the issue?

Mr. HAMMER. With respect to what?

Mr. ALBOSTA. With respect to the quotas, or with respect to the fees.

Mr. HAMMER. We have not made up the determination on whether the quotas will be required or not. If so, we will examine those options.

Mr. ALBOSTA. With respect to the fees or the quotas——

Mr. HAMMER. Our stated preference is to take care of this through the operation of fees and duties. There is no question about that.

We view that quotas are not a desirable thing. We would like to avoid quotas. We may come to the conclusion that quotas are, in some part, necessary. If they are, then we will look at quotas and see what would be the best way to consider the quotas if that becomes necessary.

Mr. ALBOSTA. Why do you believe that the quotas are undesirable?

Mr. HAMMER. We have had a history of running sugar programs, in which I was not a party to, with country-by-country quotas used in the past.

We feel there are some difficulties with that. It is not unthinkable, but it is not our preference.

If we can do it through fees and duties we think it is a lot better than trying to do work to allocate quotas to a specific country using historical data which sometimes can be accurate and sometimes not.

We basically feel, as I suggested, that the fees are a preferable way to go.

Mr. ALBOSTA. Then I would like to ask one more question.

Does not the Department of Agriculture set domestic production every year and come out pretty accurate on it?

Mr. HAMMER. Domestic production of what?

Mr. ALBOSTA. On the domestic production of sugar in this country?

Mr. HAMMER. Do you mean in estimating what it would be?

Mr. ALBOSTA. Yes.

Mr. HAMMER. I suppose we can do a pretty good job of estimating domestic production. But in what we consider to be somewhat of a shrinking domestic sugar consumption market, we are not quite sure whether our estimates are all together solid on that side of the coin.

Mr. BOWEN. I wonder if the gentleman from Michigan would yield on that point?

Mr. ALBOSTA. Certainly.

Mr. BOWEN. I understand that just recently, and, in fact, only a couple of weeks ago, USDA Statistical Reporting Service announced the suspension of the publication of the Weekly Sugar Distribution and Stock Data and also the monthly report on all sugar deliveries, inventories, production, data, and prices.

It seems that termination of those key statistical documents would make your task substantially more difficult.

What is your feeling about that, Mr. Hammer?

Mr. HAMMER. Mr. Chairman, I am not sure I can answer that because I do not have purview over the actual documents.

I would be surprised if that information is still not available to us. It is just the manner in which we disseminate public documents.

I am not sure whether that strikes at the collection of the data or whether or not it has to do with the publication.

Mr. BOWEN. If you have the opportunity when you get back to the office, we would be very happy to include in the record of this hearing if you would simply give us some response as to how you believe this information might be made available that was previously made available through publications of USDA.

These, I presume, as budget-cutting devices, are being terminated. I do not know how much money is being saved in the publication of these two important documents, but I perceive that might make your job more difficult in terms of administering the domestic sugar program.

I know that is very vital information that is very much sought after.

If you could indicate to us just how that information is to be made available to the public, since you are terminating publications—not you directly, but the Department—if you could give us that information, I would be most grateful.

Mr. HAMMER. I would be happy to supply that information to you.

Mr. BOWEN. Without objection, so ordered.

[Material to be supplied follows:]

MATERIAL SUBMITTED BY U.S. DEPARTMENT OF AGRICULTURE

The SRS has recently announced program adjustments, in the form of reduced frequency and/or coverage of data series or elimination of data series, in order to stay within FY82 funding levels. The program review in developing the modification considered input from a series of data users meetings in early 1982 in several locations throughout the US, as well as a hearing in June 1981 in Washington, D.C.

Programs such as the Weekly Sugar Distribution and the Monthly Sugar Market Statistics reports data series which were dropped were of the type considered to be of general benefit to the public and not mandatory for administration of marketing orders or other federal programs.

In the review of the SRS program, the Sugar Market Statistics series was judged to be of lower priority than other data series retained in the core program. The Weekly report contained data on deliveries and stocks at the end of each month. The monthly report included data on deliveries, domestic sugar production (raw value), stocks and receipts of imported sugar. The data contained in these reports on sugar deliveries and stocks are not available from other sources. Domestic sugar production is not available from any other source on a monthly basis. Receipts of imported sugar contained in the monthly report would be approximated by import data from the Department of Commerce--which is the only other alternative source.

The Statistical Reporting Service publishes US data on acreage, yield and production (tons) of sugarbeets and sugarcane during the months of August-November. Preliminary revisions of these data for the previous year's crops along with production of sugar (raw value) from both the sugarbeets and sugarcane crops are published once a year by the Agency--around January 15. Final revisions of these data are published around June 10.

In addition, the Department is willing to work with the sugar industry in restoring the data series if funds for data collection, summarization and publication can be provided by the industry.

Mr. ALBOSTA. I guess further to continue the area of estimates, do your estimates not come out pretty reasonable in terms of domestic use?

Mr. HAMMER. Again, it is not an area I can comment on. I am not close to that part of it. But I would presume that our estimates are fairly accurate.

Mr. ALBOSTA. For the committee record, would you submit the last 3 years of estimates for domestic production?

Would you submit the estimates for domestic use? And would you submit the total usage for those 3 years?

Mr. HAMMER. Certainly.

Mr. ALBOSTA. I would appreciate that. I think it would be interesting information. In terms of the quotas itself, it would seem to me that from that type of information, it would be relatively simple for the Department to set up a quota system based on the knowledge that you do have abuse in domestic production.

If you subtract domestic production from that total, open the market up to those nations in the CBI, and simply tell them if they wanted to they could ship as much of that in based on that quota but it was going to be limited, based on the need of this country plus the domestic production.

Otherwise, the consumers are going to go against us awfully hard.

If we start building up big sugar surpluses in this country, and at the same time allowing all the imports to come in from the Caribbean, this will be the case.

Mr. HAMMER. Congressman, at the beginning of this hearing we said that it was our desire not to take over sugar.

To that end we are examining all of our options.

Mr. BOWEN. Without objection, that material will be placed in the record at this point.

[Material follows:]

SUGAR DATA

[In 1,000 shorttons, raw value]

| Calendar | Domestic production | Imports | Total supply | Exports | Domestic disappearance |
|---|---|---|---|---|---|
| 1979 | 5,793 | 5,074 | 14,621 | 18 | 10,756 |
| 1980 | 5,736 | 4,673 | 14,110 | 650 | 10,189 |
| 1981 | 6,206 | 5,062 | 14,350 | 1,048 | 9,770 |

Mr. HAMMER. The one point I was making was reference to a previous sugar program that was country-by-country quotas.

I was making reference to the difficulty in determining what was equitable for each country shipping sugar. I think you may be referring to a global quota as opposed to a country-by-country quota.

Mr. ALBOSTA. I would be referring to the quota being based on our need and the quota being based upon opening up, but duty free, to those nations in the Caribbean that have been recognized as those that we could help economically through the increased production of sugar, or at least relieving them of the responsibility of storing all that sugar and producing too much at home.

Another question, I think, which is of vital importance to me because many of the people that I represent grow sugar up in Michigan and we are concerned as to whether or not you are going to continue to use the No. 12 contracts for the price quotes.

It is necessary under the Sugar Act of 1981.

Mr. HAMMER. Again, the question is whether we use No. 12 contracts as the most appropriate contracts. We have been working very closely with people in the industry. Our analysts have been trying to decide which tracks the real situation more closely.

There are some significant arguments that we have heard that suggest we are using the wrong contract. We are considering those very diligently.

Mr. ALBOSTA. No. 12 would be the right one, in my opinion. It reflects more a steady market here in this country whereas the No. 11 contracts, which are the world contract, reflect more the dumping actions of the European countries or somebody else somewhere else in the world.

It would seem to have a stable program in this country and it would be necessary for us to use a No. 12 contract.

Mr. HAMMER. Those are the very comments that I was referring to that seemed to make sense to us. We certainly are analyzing that.

Mr. ALBOSTA. Thank you.

I certainly appreciate agreement on that issue. If you could provide for the record the other things, I would appreciate it.

Mr. BOWEN. We are very pleased to have with us today our distinguished chairman of the full Agriculture Committee, the gentleman from Texas, Mr. de la Garza, who has always taken a very keen interest in matters involving sugar.

I am very pleased to recognize him at this time.

The CHAIRMAN. Thank you very much, Mr. Chairman.

I appreciate the witnesses being here. I apologize for my coming in and out. I have another subcommittee working. There seem to be thousands of people who require my presence.

I had a long list of questions that I have been working on. It seems that most of them have been addressed in your answers or have been addressed by the several members.

One thing I do not know if the chairman of the subcommittee mentioned, but I would like to state for my personal involvement, is this.

I hope this is not taken in any way as being against the Caribbean Basin Initiative on that the hearing is in any way to show displeasure.

I would hope that everyone would understand that this is our responsibility in oversight to find out what the situation is and how it can affect the particular commodity.

It should not be and the intent was not in any way to show lack of support for the Caribbean Basin Initiative or a lack of interest in the problems of the people in that area.

I think probably I have only two or three questions which have not been addressed.

This is just so that we might complete the record.

There are other countries which supply us or sell us sugar, such as Brazil, Australia, Argentina, the Philippines.

Was there any consultation with them? To what extent was the effect or what impact would it have on their relationship to sugar?

I guess maybe the State Department could address that issue.

Mr. CALINGAERT. This is obviously a matter of concern because we have a number of friendly countries that have been important suppliers of sugar to us.

We have discussed the initiative with them, including the sugar aspects of it. The problem they face in the future is the general one, of course, of a declining market and what the shares will be among the various countries in that.

Under any circumstances I think they can expect to continue to be important suppliers in the market, but they presumably would fare less well relatively than the countries that would be benefitting from the Caribbean Basin Initiative.

The CHAIRMAN. You mentioned that the items, that is, 80-some percent of the items that are shipped are already duty free. Basically, the impact will be on sugar.

For the record, if you have not done so, why were textiles and apparel admitted or exempted from the Caribbean Basin Initiative?

Mr. NELSON. Mr. Chairman, it is my understanding that textiles and apparel are already covered by an international agreement that covers trade from those countries into the United States and into a number of other countries.

The CHAIRMAN. That is the reason that they were not included?

Do they pay duty now? Or do they have an allotment or a quota?

Mr. NELSON. There is an allotment. Three countries are covered by agreements that would involve textiles.

There are allotments and there are quotas.

The CHAIRMAN. Would you submit for the record which countries?

Mr. NELSON. Certainly.

Mr. BOWEN. Without objection, that information will be placed in the record at this point.

[Material to be supplied appears at the conclusion of the hearing.]

The CHAIRMAN. Do you know for the record when those agreements might end? Would they end within the term of your 12-year Caribbean Basin Initiative?

Mr. NELSON. We will supply that information as well.

The CHAIRMAN. Should they then be included in the duty-free category?

Mr. NELSON. Again, we will be able to supply you that information. I do not have it here.

Mr. CALINGAERT. I would just like to add this, Mr. Chairman.

The multifiber agreement runs from 3 years under that umbrella. There are a series of bilateral agreements which run anywhere from roughly 3 years to 6 years.

But we would be happy to provide specifics for you.

The CHAIRMAN. So the exemptions you have now would end, at least by the middle of your 12-year period?

Mr. CALINGAERT. The question obviously is: What would the future be of those particular agreements once they expire? Would they be renewed?

The CHAIRMAN. Do you have any indication of what your druthers would be in that situation? Do we set policy for 1, 2, or 3 years?

Mr. CALINGAERT. The textile issue, of course, is a very large one. I would assume it would be with us for a number of years.

I think it is a little hard at this point to say what the life of particular agreements might be. But the general prospect, I would assume, would be for some continued restraints on textile and apparel imports into the United States.

The CHAIRMAN. Part of the reason is this. I want to be very frank with you.

I was trying to help the Caribbean. Are there more textiles companies than sugar companies?

Mr. NELSON. We are indeed trying to help the Caribbean, Mr. Chairman.

The multifiber agreements cover a number of developing and developed countries. It is a very complex issue and certainly at the time these agreements are up for renewal we will examine the impact on those countries of the multifiber agreement and of the Caribbean Basin Initiative, including textiles and apparel.

I agree with Mr. Calingaert that the problem is likely to remain with us far beyond the 3-year period of the multifiber agreement.

The CHAIRMAN. Throughout the afternoon when I was in here I did not see that many heads weaving back and forth and consulting.

Was there any discussion about our involvement with the International Sugar Agreement or the International Sugar Organization? Was there any mention made?

Mr. CALINGAERT. I mentioned it in my statement; yes.

The proposal does not violate that agreement. We are a member of the agreement. We have just agreed to a 2-year extension.

The real problem there is that the European Community has not joined the ISA. That is what we hope to address in the renegotiation of that agreement.

The CHAIRMAN. I guess you may have discussed it, but are we going to have a nonduty sugar, a GSP nonduty sugar special quota and then duty sugar from other areas? Where will the price go? What will it do to the price? Has that been dicussed? Are there tendencies or projections?

Mr. HAMMER. We have discussed and have tried to analyze that at length. We had an emergency proclamation that we put in effect the first of the year.

There was a GSP cushion factor, if you will. We are examining whether or not that was an appropriate cushion. We also have the ability to go up with fees if the sugar coming from the Dominican Republic, that is, from the three countries, is putting downward pressure on our program or prices.

There is no question, Mr. Chairman, that the higher the percent of GSP coming into the United States, that is, sugar coming in without paying duties, the more fee we need on the rest of the sugar coming in.

That is something we have to examine to see what is an appropriate level of fee. We are in the process of trying to analyze that situation right now.

The CHAIRMAN. They are having their meeting in London on the sugar agreement when?

Mr. CALINGAERT. The council meets in May.

The CHAIRMAN. Do you have any position or does the United States have any position on fixed tonnages that will be discussed and has been discussed?

Mr. CALINGAERT. One of the issues will be that of the basic export tonnages, which has been a difficult one—I am not aware that we have made a determination of what our position will be for that forthcoming meeting.

Mr. HAMMER. Mr. Chairman, I am told by one of the people that will probably be attending that meeting for the Department of Agriculture, that one of the issues that we will be trying to resolve in London at that meeting is whether our export tonnages, as a total, are realistic or whether or not they are too high. That is one of the main issues that we will put on the agenda to try to determine the relevancy of those export tonnages.

The CHAIRMAN. We have not delineated our policy yet?

Mr. HAMMER. I do not think we have come up with the precise role.

I am learning all the time myself, Mr. Chairman. We have stated to the organization that our goal would be to get the EC signed on as a participant and that we would get the export tonnages to appropriate levels.

But I am told we have not determined or at least stated those levels.

This is an educational question you have just asked me. I will have to provide you with more information if you desire it.

The CHAIRMAN. The reason I asked is this.

We are here to talk. We used to always complain at the United Nations or the Security Council that if you wanted to do nothing or if you wanted to share the responsibility, you always lacked instructions from your government. This gave you leeway.

I hope that we are not going to go to London or other meetings and sit there and say we have no instructions from our Government.

Mr. CALINGAERT. We have participated very actively. It is a longstanding problem of how you divide up and arrive at a total basic export tonnage figure.

As I mentioned earlier, one of the complicating factors in the market has certainly been the export policy of the European Community which has rendered the effectiveness of the institution much shakier.

Mr. HAMMER. One of the things that should be clear, I think, from the hearing is that we are here focusing attention on this sugar subject and not the CBI, because the international market for sugar is so depressed.

I would suggest that one of the most onerous activities out there in the international marketplace has been the EC's activities relative to their subsidies and dumping of sugar.

I would not be a bit surprised if this is not one of our major thrusts at the International Sugar Organization. We also have probably today going on in Geneva a case where we are trying to

get the European Community to change its subsidy activities on sugar.

This is being done with a whole host of other countries. I think 10 countries are involved. Mr. Nelson could speak more to this.

The CHAIRMAN. Where was it that they are increasing their subsidy of farm products by 14.5 percent? The EC?

Mr. HAMMER. The overall farm support?

The CHAIRMAN. I just read something in the news.

Mr. HAMMER. They have not made that decision. It varies from country to country.

The CHAIRMAN. The European Parliament, I think it was.

Mr. HAMMER. I think the average may be more in the 9 percent range. That is still quite high given their excess self-sufficiency ratio.

The CHAIRMAN. What would be our position on price at the bottom and top, let us say, adding a penny to the bottom or the top, on the agreement?

Do you have any position on that?

Mr. CALINGAERT. On the price range?

The CHAIRMAN. Yes.

Mr. CALINGAERT. I think at the moment we are satisfied with the price range. The midpoint of that is about 18 cents at this point which is pretty much in correspondence with our domestic program.

The CHAIRMAN. Mr. Nelson, I think you were the one who stated this.

I was very happy to see that you have a proviso or safeguard mechanism, as you call it, that would permit the President to suspend duty-free treatment on the fixed quota countries of the Caribbean Basin Initiative.

Is there any proviso there, a report to Congress, or does Congress participate? Is this totally a Presidential initiative?

How does it read? I have not had an opportunity to be completely versed. How does it read? Who will participate? How will the decision come about?

Mr. NELSON. The President, upon recommendation of the Secretary of Agriculture, could suspend or adjust the duties.

But I am certain, given the close relationship between the Congress and the Department of Agriculture, that it will be done with full consultation with the legislative branch.

The CHAIRMAN. That did not sound too forceful. [Laughter.]

Mr. NELSON. Well, since the Secretary of Agriculture has made the determination, perhaps Secretary Hammer would chose to respond.

The CHAIRMAN. I just wanted to know what the practical effect would be and how would it work.

Mr. HAMMER. I think one of the things we were talking about was the Secretary recommending to the President to suspend these duties.

The only thing I can say, as we have said and we continue to say is that it is our desire not to take over any sugar. So we will be diligent in these efforts.

We have not yet come up with all the indicators we need. But we have had pretty good experience of tracking sugar imports. We have some fee adjustments that we have already been making.

I think we can come to grips with this relatively quickly. We will have a procedure that is useable and we think rather expedient for moving quickly to defend our sugar program which is what the act requires.

The CHAIRMAN. One of you mentioned that you would not let these three countries have a windfall profit type deal, and that it would not be used to alleviate the problems that we are trying to address with the initiative.

Do you have any plans now? How would you address that issue?

Mr. NELSON. I think that what I said earlier, Mr. Chairman, is that we will be negotiating the participation of individual countries in the Caribbean Basin Initiative.

What we would do would be to encourage those governments to tax the amount that would not be paid in duty in order that the treasuries in those countries could benefit from the amount of money there rather than the individual company.

However, if the Government should decide that it would be better to leave that in the private sector in the country, it would be our fervent hope that the private sector would use those additional funds by reinvesting to help generate other employment.

Mr. CALINGAERT. I would just like to add to that, Mr. Chairman.

Certainly the thrust of the free trade area concept is to put more money into those economies and let the economic sector function.

It is not simply a sugar program, of course. It is across-the-board and the idea would be that through the waiver of the duty on whatever is exported, funds would be generated in the economy and would serve the development of the economies of those countries.

The CHAIRMAN. The reason for the question is this. Since 80-some percent is already duty-free, basically the thrust will be for the three countries that you are giving the quota.

Mr. CALINGAERT. It would essentially be putting the three nonrecipient countries on the same basis as the others, although with an absolute maximum.

The CHAIRMAN. Do you have no plan of transfer within countries or assistance among the peers? If one gets a windfall, they would go and help the smaller one that has worse problems, so that it generates within this. You are calling it the Basin.

Do you have a basin assistance within the Basin with some of their windfall profits, if any come their way?

Mr. NELSON. I am not aware that any such proposal exists, Mr. Chairman.

The CHAIRMAN. Of course they are all terribly poor, but there are poorer than others. Most of them or all of them are poor countries, but there are some that are more poor.

Mr. CALINGAERT. There are some regional aspects to the program, but there is nothing relating specifically to sugar; no.

The CHAIRMAN. Or any of the other items?

Mr. NELSON. Mr. Chairman, one of the things when we are negotiating with these governments will be encouraging them to have more liberal trade policies with respect to one another.

We find that one of the most onerous burdens that developing countries face is the barriers faced by their exports into other developing countries.

We would hope within the area we would encourage them to be more forthcoming in allowing the entry of products from their neighbors.

The CHAIRMAN. Was our Resident Commissioner from Puerto Rico here? There is a sugar-related problem, like rum, for example. What provisions were made, for example, to prevent someone from moving from Puerto Rico to one of the Caribbean Islands their rum distillery to send it in duty-free because the labor would be cheaper in that particular country than it would in Puerto Rico?

Has something like that been addressed or discussed?

Mr. NELSON. Mr. Chairman, I have with me Mr. Irving Williamson who is from the General Counsel office at the Trade Representative's Office.

He can answer that more directly.

Mr. WILLIAMSON. Mr. Chairman, one provision we did make in the agreement was to include, well, to make the Virgin Islands eligible to apply for import relief.

Puerto Rico is already eligible to do so if their rum industry was being injured by imports from the Caribbean Basin. They can come in and get import relief.

As a measure that is not part of the legislation, but is something we will be doing administratively, we will be making sure that when the Virgin Islands and Puerto Rico import molasses to manufacture rum, other countries do not discriminate against them by not providing molasses. In this way they can continue their rum industry.

We have taken a number of measures to make sure that Puerto Rico and the Virgin Islands are not injured by the Caribbean Basin Initiative and also that they can participate fully in it.

The CHAIRMAN. I know the Governor of Puerto Rico was supportive of the Initiative, but I was concerned about this.

You hear on the mainland about runaway industry. Someone might just move their operation to a neighboring island to get the duty-free treatment and because of less cost of production.

Mr. WILLIAMSON. We are concerned about that. That is the reason for the safeguard provisions.

As a parallel to the extension of the investment tax credit to investments in the beneficiary countries we are changing the Tax Code to cover investments in Puerto Rico and the Virgin Islands.

Also, products from the Virgin Islands and Puerto Rico, when they are shipped to beneficiary countries, can be counted as part of the value-added requirements to the CBI so that there is an incentive to make use of products from those islands in manufacturing products in the beneficiary countries that are shipped to the United States.

We consulted with Puerto Rico very closely and the Virgin Islands in developing the program.

The CHAIRMAN. I think all the other questions I had were covered by the other members.

I again thank you, Mr. Chairman, for assisting us in our endeavor to try to get on the record as best we can what we can expect as

it relates to sugar commensurate with the existing law and what the specific departments plan to do.

Hopefully it will be helpful to what was the intent of the Congress in relation to the farm legislation which included sugar. We are still trying somehow to afford some degree of the area of competitiveness for our domestic suppliers of sugar as contrasted with that which is imported.

As much as we want to help our friends and neighbors, we want to do it within the context of not diminishing, to the best extent possible, the return of our producers.

I guess one of the things that is most difficult to explain to our neighbors is this. I met with some from the Dominican Republic in that they assume that Uncle Sam is rich and that every person who is a nephew to Uncle Sam is wealthy and prosperous.

We should open our door to everything that they can ship in order to better their lives to which we would like to assist, but it is very difficult to explain to them that we have rich and poor, and some as poor as they are.

Our Government, like their Government or any other government, or combinations of governments, are due to afford some degree of protection.

At the same time we should see that we do not injure historical suppliers who have been friends and who have supplied us in times of great need.

Long before your time, the President of the United States sent emissaries to countries who said:

"If you keep supplying us with sugar during our days of need, we will see that you are rewarded as a friend, not because you reward friends, but because you are a friend."

We do not want to hear five or six Presidents later because the word of the President of the United States stands forever, and we do not want to forget the President's insistence at the time that we will not forget their assistance to us.

That is one of my concerns that we do not, in the process, injure domestic suppliers or our friends who have stood by us through the years.

Thank you very much, Mr. Chairman.

Mr. BOWEN. I would like to thank Chairman de la Garza for being with us. I believe the record will show that certainly in my remarks and those of a number of our colleagues here, we expressed very keen interest in and support for the objectives of the Caribbean Basin Initiative.

We are, of course, holding this hearing for the purpose of examining precisely what the impact of that program will be upon the farm legislation that we passed last year and on the domestic sugar industy as well as further ramifications of the CBI.

Of course, my personal line of questioning and that of several of my colleagues about the possibility of paying back duty through some device we might design or possibly even requiring a windfall profits tax were directed toward the end of achieving the goals of the Caribbean Basin Initiative in terms of benefits for those nations at the same time that we are protecting our own domestic industry.

Either one of those two approaches, in my judgment, would be a very constructive move in accomplishing both of those ends.

I believe that our colleague from California, the ranking minority member, Mr. Thomas, would like to ask another question or two.

Mr. THOMAS. Thank you, Mr. Chairman.

I want to underscore the support for this bold comprehensive concept. The problem is that we are still going through the understanding process of the mechanics of how it works and want to know how you arrived at your conclusions so we could possibly share or, in fact, defend them if we have to on the floor of the House.

Mr. Nelson, you mentioned on page 6 of your testimony the problem of the generalized system of preference ceiling and the potential violations of the maximum amount which is figured on the gross national product procedure.

In trying to understand some of the pressures placed upon the Department of Agriculture to maintain the domestic sugar program that we passed in the 1981 farm bill, it was explained to me and, in fact, Mr. Smith said this afternoon, that Thailand realizes it will break the amount so they are simply dumping sugar in the United States and will be able to do so until approximately April 1.

I do not understand the mechanics of allowing someone who is in violation, perhaps in the third quarter or the fourth quarter of a given time period, a fifth quarter to continue to break the bank.

Is it part of the treaty process? Is there no way that we can flag this? For example, could we examine the first three quarters and based upon an extrapolation from those three quarters, if the fourth quarter looks as if it will put them over, can we not flag them, make decisions earlier than April 1?

Mr. NELSON. The legislation was changed not very long ago. The legislation puts us on a 12-month calendar year. It says that the determination as to redesignation or removal of countries from GSP for competitive need or for other reasons, should be based on the statistics of a calendar year.

At one point we were given 60 days to do this analysis and the Congress acted very wisely in saying because of the lag in obtaining statistics we have an additional 30 days.

What we are really talking about is a 12-month year rather than a 15-month year.

I understand exactly what you are saying.

Mr. THOMAS. In practicality when you look at the person who is able to dump the sugar, they have five quarters in which to dump it rather than four quarters.

Mr. NELSON. That is correct. However, let us take the example a little further.

Thailand will lose GSP because it has exceeded the competitive need formula in this year. Today, as you point out, is the last day on which they can ship, and they are shipping an awful lot in order to take advantage of it.

I think that is good commercial practice on their part. If I were in their shoes I would probably be trying to do exactly the same thing.

Mr. THOMAS. It may be a good commercial practice on their part, but it seems to me that we ought to be able to devise a procedure which would flag the potential violators.

I know we have thousands of them that we probably have to review in terms of the statistics. Is there no way that we can create a procedure which identifies potential violators and examines those first so that you have a rolling clearance procedure, leaving those that clearly would not violate to an April 1 approval?

Mr. NELSON. Let me come right back to that and finish what I was going to say earlier.

If a couple of years from now we were to redesignate Thailand as a recipient, they would not begin to receive GSP until April 1. It is a period that begins 3 months lagging the calendar year.

So it is not as if they are getting 15 months of a year, or five quarters. They are, in fact, getting four.

Mr. THOMAS. No, they get five quarters. You are talking about a future situation.

If they go through April 1 and are granted it, they go through January 1 and they can continue to dump until the following April. So, in fact, they get 12 months the next time.

So they are getting a free fifth quarter.

Mr. NELSON. Well, as I said——

Mr. THOMAS. It is April 1 to April 1 after they have been penalized, but that is still a full 12 months.

My problem is this: If you say we have up to 90 days to review it, is it not possible to set up a procedure which allows us to flag potential violators in a period less than the full 90 days? Do we have the ability to flag them?

Mr. NELSON. We publish in January an early warning list to countries to indicate that a problem is about to arise.

If we were on a fiscal year basis, we would then start in October and analyze the information and the import data that is available to us for the fiscal year, which would be a 12-month period as well.

Then perhaps by the first of the year we would be in a position to redesignate people.

I am not sure that violators is an appropriate word here. What they have done is simply to exceed the amount that we have determined to be—through a complicated formula—that which constitutes competitive need.

Yes, it is possible.

Mr. THOMAS. Exceed the competitive need? They are exceeders rather than violators?

Mr. NELSON. That sounds a lot better. That is really a more accurate characterization.

Mr. Thomas, the way the law is written, for a period of at least 12 months, they are entitled to ship under this formula.

Mr. THOMAS. But no more than 12 months?

Mr. NELSON. I am sorry, I lost my train of thought. I was getting a clarification of something here.

Mr. THOMAS. My problem is this, Mr. Nelson.

If they get the full 12 months, then I am willing to live up to the letter of the law in terms of the 12 months.

I do not understand how administratively we then put a red flag up letting everybody know who is on that potential violator list in January, that it looks as if they are going to be violators.

You have until April 1 to move however much product you want to move since your benefits are going to be eliminated anyway.

That just does not seem to be a good business practice.

Mr. NELSON. As I said, I understand your concern about it. I do not think it is being properly characterized.

What happens on April 1, beginning tomorrow, they pay an import duty. If after a period of time it is determined that they have not exceeded the competitive need formula, they could—by no means would—be redesignated as a recipient again.

At this point on April 1 sometime—unless the Congress changes it to another point—they would be redesignated again and they would be entitled for a period of time to receive GSP treatment until such time as they exceeded the competitive need formula.

You asked about an early warning. I am not sure how it could be structured to do that. We do now, as I indicated, give them an early warning based on information that is available to us for the first 9 or 10 months.

What that simply does is to say: "Hey, the problem is arising." We do not cut them off.

If you are proposing that as soon as they exceed that formula, or as soon as they exceed that competitive need, a duty be assessed—is that your proposal?

Mr. THOMAS. That would be one of them. If within the 12-month period it is clear that they exceed, then the day after that, the GSP preference is removed.

It also seems possible to me that since you are insisting on April 1 to April 1 being the 12 months, that if in the previous 12 months, which was January to December, they were in violation or appeared to be in violation, based upon extrapolation of statistical data and they appear to be willful and knowing exceeders in the previous 12-month period, why can they not be put on notice and be denied GSP until the fixtures are determined and then if, in fact, we were in error, they are reinstated April 1 to April 1.

I will use your 12 months. They get their full 12 months.

Mr. NELSON. I think it is a very novel approach. I know that the entire legislation will be up for review within probably 1 year.

I think the kinds of proposals that you have put forward would require legislation and are certainly worthy of study.

Mr. THOMAS. I am going to be discussing it. I am in full support of the GSP program.

But it just seems to me that the way in which it is administered, we are taking advantage, perhaps by unwillful and unknowing exceeders, but I think at times by willful and knowing exceeders.

My second question is addressed to Mr. Hammer.

For the last 2 years I have been treking over to Europe and sitting down with members of the European Parliament and also administrative members in Brussels.

And as recently as last January I was beating them over the head once again on the section 301 question in terms of North Africa and the duty preference that citrus and citrus products were receiving from the European Community in terms of North Africa.

I am going to have to go back and do it again. Can you point this out to me carefully so that I can maintain my continued support for the section 301 violation that the United States is now attempting to push before GATT in Geneva?

The differences between our argument on the Mediterranean citrus question with the EC and the Caribbean Basin Initiative on what we are going to do with sugar is what I am asking.

Mr. HAMMER. Carefully I would tell you to avoid the subject.

It is not an easy road that you will have to tread. This is probably—although this is a matter for the USTR to comment on—will require a GATT waiver on the activities that we are talking about here in terms of the trade preferences in the Caribbean Basin Initiative.

But the Europeans have been negotiators for nearly 2,000 years and they are pretty good at it. They tend to use almost anything that they can find to put in their arsenal to discuss things.

The fact of the matter is that many of the commodities that we are talking about here that will be coming in from the Caribbean Basin, if not all Caribbean, the European Community is not trying to market to the United States.

It will not affect them at all. But in terms of trade policy and principle it does give you a little difficulty in arguing in the same breath.

However, the USTR people have given some thought as to how we would approach the case actually.

Mr. THOMAS. You understand the Europeans do not have speed limits on their freeways. They are more than willing to plow into you at whatever speed they feel is appropriate.

It is very difficult to duck the arguments. I am looking for some ammunition. I would like to have it explained.

Mr. NELSON. It is a very difficult and a very complicated situation, as you have already indicated and as Mr. Hammer indicated.

We will, indeed, have to seek a GATT waiver if the Congress approves the Caribbean Basin Initiative in a form similar to that which is currently proposed because of the free trade segments therein.

There are precedences for getting such waivers. The Australians and New Zealanders have done so for similar types of arrangements that they have with a number of independent small islands in the Pacific.

The enabling clause that was negotiated during the multilateral trade negotiations encourages developed countries to make special arrangements with developing countries in order to assist in their development.

We would, in fact, go for a waiver. The European Community has given a variety of justifications for the program that they have, including the fact that they are involved in a free trade arrangement which, indeed, is not the case.

It involves preferences at various levels. We think there are enough dissimilarities between the system that the Community uses to grant preferences for citrus and our own that we are not undercutting our case within the GATT.

Mr. THOMAS. I would appreciate if you would delineate the differences between our section 301 case and the position we are going to

be taking in front of GATT asking for a waiver so that I can appreciate the differences.

Mr. NELSON. I would be very happy to work with you on that.

Mr. BOWEN. Without objection, that will be placed in the record at this point.

[Material to be supplied follows:]

Supplementary Information to Don Nelson's Testimony

Before the

House Committee on Agriculture

Subcommittee on Cotton, Rice and Sugar

March 31, 1982

As Requested by Representatives Bowen and Thomas

Differences Between EC Mediterranean Citrus Preferences and the Proposed U.S. Caribbean Basin Initiative (CBI)

There are fundamental differences between the U.S. Caribbean Basin Initiative and the preferential arrangements of the European Community with respect to which we are disputing the GATT-consistency of citrus preferences.

Above all, the United States intends to request a waiver under Article XXV of the GATT. The CBI preferences are consistent with the decision adopted during the Tokyo Round of trade negotiations (commonly referred to as the Enabling Clause) that developed countries give differential and more favorable treatment to developing countries. The CBI is being undertaken in the context of the sponsorship and cooperation between five Western Hemisphere countries (the United States, Canada, Mexico, Venezuela and Colombia). The recipients are a group of countries whose economies are relatively small and who already receive GSP. The preferences are unilateral and uniform for all recipients. They are also of limited duration (12 years) and not expected to have a significant adverse impact on the trade of other GATT members.

The EC, on the other hand, has not received GATT authorization for its preferences, and has at times sought to justify them as free trade areas even though they clearly do not meet the criteria of GATT Article XXIV (e.g., they do not cover substantially all trade). Moreover, the EC's agreements include a developed country (Spain) as well as developing countries. The EC has also obtained preferential access for its own goods (reverse preferences) in at least one agreement (Israel*). Finally, the EC's agreements are discriminatory (e.g., citrus preferences differ considerably among recipient countries) and are of unlimited duration.

*Most of these reverse preferences were terminated in 1975 as a condition for the U.S. extending GSP to Israel.

CBI and U.S. Textile Trade Policy

Under present USG policy, the USG negotiates (or if necessary unilaterally imposes under the authority of Section 204 of the Agricultural Act of 1956) quotas on textile products from a country when exports from that country of a product or products disrupt the U.S. market. In implementing this policy the USG is guided by the criteria and procedures of the GATT Multi-Fiber Arrangement (MFA).

The Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA) was negotiated under GATT auspices and entered into force on January 1, 1974. A four-year extension was negotiated in 1977 with the addition of a protocol and on December 21, 1981, the forty-two signatories to the MFA, which account for about three-quarters of the world's textile trade, extended the Arrangement for a period of 4 years and 7 months by a new Protocol of Extension.

The MFA Provides a framework for the orderly development of world trade in textiles and apparel while avoiding market disruption or the threat of such disruption in importing countries. It specifies the parameters for bilateral agreements concerning imports of textile and apparel products. The MFA provides, among other elements, standards for determining market disruption, minimum levels of import restraints, and annual growth of imports.

Pursuant to the provisions of the MFA, the United States has negotiated bilateral agreements which contain specific restraint levels with twenty-five countries. Each bilateral agreement involving specific restraints provides for trade growth, assured market access, flexibility to adjust restraint

levels in response to market changes, and consultations to resolve questions which may arise. Also, each agreement contains an equity clause assuring the bilateral partner that its exports will not be restrained to the benefit of imports from countries with which the United States does not have a bilateral textile agreement.

With regard to the countries in the Caribbean Basin, only Haiti, the Dominican Republic and Costa Rica of the Caribbean group currently face quantitative restraints and only on certain product categories. (See attached table for the current quotas.) The exports of the other countries enter freely, subject to tariffs. The growth rate applicable to categories exported from Caribbean countries where the United States does have quotas is already one percent above that specified in the MFA.

The major proposal of the CBI regarding textiles is to grant Caribbean countries more favorable quantitative access to the U.S. textile and apparel market in the context of overall U.S. textile policy. This overall policy would tend to be more forthcoming to small and new developing country suppliers provided that the growth in the large quotas from our major suppliers (Hong Kong, Korea, Taiwan) can be reduced.

Textiles and apparel are specifically excluded from the provisions of the free trade arrangement of the CBI. This means for the purposes of the CBI only that at any time all textiles in the Correlation: Textiles and Apparel Categories with the Tariff Schedules of the United States Annotated and its annex will not receive duty-free treatment. This exemption from the free trade arrangement will be effective for the duration of the duty suspension for Caribbean Basin Country exports to the United States and is unaffected by the terms of U.S. bilateral textile agreements with CBI countries.

1980 EXPORTS FROM THE CARIBBEAN COUNTRIES, BY CATEGORY (ONLY THOSE WHICH EXCEED 1 MILLION SQUARE YARD EQUIVALENT - SYE), SHARE OF THE U.S. IMPORT MARKET AND QUOTA AND TYPE OF QUOTA (DCL - DESIGNATED CONSULTATION LEVEL AND SL - SPECIFIC LIMIT):

| Country | 1980 US IMPORTS QUANTITY (million SYE) | SHARE OF U.S. IMPORTS (PCT) | QUOTA (MSYE) AND TYPE |
|---|---|---|---|
| **Category 331 - Cotton Gloves** | | | |
| Haiti | 1.1 | 2.7 | 1.8 (DCL) |
| Barbados | 1.6 | 4.8 | --- |
| **Category 334 - M and B Other Cotton Coats** | | | |
| D.R. | 2.6 | 7.1 | --- |
| **Category 335 -WGI Other Cotton Coats** | | | |
| D.R. | 1.3 | 2.2 | --- |
| **Category 337 - Cotton Playsuits** | | | |
| Haiti | 1.4 | 4.1 | 2.2 (SL) |
| **Category 340 - M and B Woven Cotton Shirts** | | | |
| Jamaica | 3.4 | 2.3 | --- |
| D.R. | 2.8 | 1.8 | 3.1 (SL) |
| Haiti | 1.7 | 1.2 | 2.7 (DCL) |
| **Category 347 M and B Cotton Trousers** | | | |
| Nicaragua | 2.0 | 2.3 | --- |
| Jamaica | 1.0 | 1.1 | --- |
| **Category 350 - Cotton Dressing Gowns** | | | |
| D.R. | 1.3 | 11.7 | --- |
| **Category 351 - Cotton Nightwear** | | | |
| D.R. | 13.6 | 18.9 | 15.7 (SL) |
| Nicaragua | 5.2 | 7.3 | --- |
| **Category 359 - Other Cotton Apparel (Overalls, in this case)** | | | |
| Belize | 6.4 | 7.7 | --- |
| Haiti | 0.9 | 1.1 | 3.2 (DCL) |

| | | | |
|---|---|---|---|
| **Category 369 - Other Cotton Manufacturers** | | | |
| D.R. | 3.5 | 1.9 | --- |
| **Category 632 - MMF Hosiery** | | | |
| Haiti | 3.1 | 23.2 | 8.0 (SL) |
| Costa Rica | 1.7 | 12.1 | --- |
| **Category 635 - MMF WG And I Coats** | | | |
| D.R. | 1.4 | 1.5 | --- |
| Haiti | 2.9 | 2.9 | 5.7 (SL) |
| **Category 636 - MMF Dresses** | | | |
| Haiti | 3.6 | 6.9 | 5.2 (DCL) |
| D.R. | 1.2 | 2.4 | --- |
| Barbados | 2.8 | 5.4 | --- |
| **Category 637 - MMF Playsuits** | | | |
| Haiti | 3.0 | 19.5 | 7.5 (SL) |
| **Category 639 - MMF WG and I Knit Shirts and Blouses** | | | |
| D.R. | 3.8 | 1.8 | 4.4 (SL) |
| Haiti | 1.7 | 0.8 | 5.7 (DCL) |
| Costa Rica | 1.9 | 0.9 | --- |
| **Category 640 - MMF and B Woven Shirts** | | | |
| D.R. | 1.0 | 0.5 | --- |
| **Category 641 - MMF WG AND I Woven Blouses** | | | |
| D.R. | 1.4 | 2.3 | --- |
| Haiti | 3.2 | 5.8 | 4.6 (DCL) |
| Costa Rica | 1.2 | 1.9 | --- |
| **Category 644 - WG and I Suits** | | | |
| Costa Rica | 1.1 | 17.4 | --- |
| **Category 648 - MMF WG and I Trousers** | | | |
| Haiti | 4.1 | 3.9 | 10.0 (DCL) |
| Costa Rica | 2.2 | 2.1 | --- |

Category 649 - MMF Brassieres

| | | | |
|---|---|---|---|
| D.R. | 7.4 | 12.4 | 7.2 (SL) |
| Haiti | 5.9 | 9.8 | 5.6 (SL) |
| Barbados | 1.9 | 3.2 | --- |
| Costa Rica | 7.5 | 12.4 | 8.1 (SL) |
| Jamaica | 2.0 | 3.4 | --- |
| Honduras | 3.2 | 5.3 | --- |

Notes on Category 649: Our bilateral agreements with the Caribbean countries provide for 7 percent annual quota growth, plus up to 7 percent swing (transfer of quota among categories) and 11 percent carryover/carryforward (transfer of quota among years). The limits for the D.R. and Haiti do not receive annual growth because these countries elected to allocate the total available quota during the full term of their agreements evenly to each year.

Category 650 - MMF Dressing Gowns

| | | | |
|---|---|---|---|
| D.R. | 2.3 | 27.6 | --- |
| Haiti | 1.1 | 12.9 | 12.9 (DCL) |

Category 651- - MMF Nightwear

| | | | |
|---|---|---|---|
| D.R. | 6.8 | 41.9 | --- |
| Haiti | 1.7 | 10.4 | 5.0 (DCL) |

Category 652 - -MMF Underwear

| | | | |
|---|---|---|---|
| D.R. | 3.5 | 6.5 | --- |
| Haiti | 10.9 | 20.0 | 9.6 (DCL) |

Category 659 - Other MMF Apparel

| | | | |
|---|---|---|---|
| D.R. | 1.4 | 0.6 | --- |
| Haiti | 4.7 | 2.0 | --- |
| Belize | 5.2 | 2.3 | --- |

Mr. THOMAS. Mr. Hammer indicated that the Europeans have been masterful traders for a number of years. My question is: Is it going to cost us anything to get the waiver through GATT?

Mr. NELSON. No, sir; I do not believe it will.

Mr. THOMAS. You do not believe it will?

Mr. NELSON. No, sir; if you are talking in terms of trading off our section 301 case for approval by the Community for this waiver----

Mr. THOMAS. Or anything else.

Mr. NELSON. No, sir; I do not believe that will be the case at all.

Mr. THOMAS. Thank you.

Thank you, Mr. Chairman.

I appreciate your willingness to stay here this long through all this balanced thinking.

Mr. BOWEN. I would like to thank all of our distinguished witnesses for being with us today and to say that we appreciate the contribution you have made. I think it will be of help to us.

I hope that the record will also be of help to you in carrying out your responsibilities.

This hearing is now adjourned.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned.]

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